



WASHINGTON, D.C. 20446

January 13, 1969

Mr. Joseph A. Califano, Jr.
Special Assistant to the President
The White House
Washington, D. C.

Attention: Mr. Matthew Nimetz

Subject: Supplement - History Project

Dear Mr. Califano:

The Renegotiation Board submits herewith the 1968 Annual Report as a documentary supplement to its history during the Johnson Administration in compliance with your request of June 8, 1968.

Sincerely yours,

Lawrence E. Hartwig
Lawrence E. Hartwig
Chairman

Enclosure

The

RENEGOTIATION BOARD

Thirteenth Annual Report

1968



Letter of Transmittal

The Renegotiation Board
Washington, D.C.
December 31, 1968

To the Congress of the United States:

I have the honor to transmit to you the Thirteenth Annual Report of The Renegotiation Board, covering the fiscal year July 1, 1967 through June 30, 1968, as required by Section 114 of the Renegotiation Act of 1951, as amended.

LAWRENCE E. HARTWIG,
Chairman.

THE PRESIDENT OF THE SENATE

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

The Renegotiation Board

Members of the Board:

LAWRENCE E. HARTWIG, *Chairman*¹

HERSCHEL C. LOVELESS²

THOMAS D'ALESSANDRO, Jr.³

WILLIAM M. BURKHALTER⁴

JACK BEATY⁵

Headquarters Office
1910 K Street, NW.
Washington, D.C. 20446

¹ Appointed October 3, 1951, designated Chairman April 13, 1961.

² Appointed March 17, 1961.

³ Appointed March 28, 1961.

⁴ Appointed April 10, 1962.

⁵ Appointed February 28, 1963.

Contents

	<i>Page</i>
I. THE PURPOSE AND PROCESS OF RENEGOTIATION-----	1
II. CHANGES IN REGULATIONS DURING THE FISCAL YEAR----	5
III. CHANGES IN OPERATING PROCEDURES DURING THE FISCAL YEAR-----	6
IV. FILINGS; SCREENING, PROCESSING, AND COMPLETIONS----	6
V. RENEGOTIABLE SALES AND PROFITS-----	8
VI. EXCESSIVE PROFITS DETERMINATIONS-----	10
VII. APPEALS-----	12
VIII. EXEMPTION OF COMMERCIAL ARTICLES AND SERVICES----	14
IX. EXPENSES AND PERSONNEL-----	15

Thirteenth Annual Report of The Renegotiation Board

For the Fiscal Year Ended June 30, 1968

I. The Purpose and Process of Renegotiation

Profit limitation on defense contracts is a long-established national policy reflected in a succession of congressional enactments. The limitation of profit margins on naval ship procurement dates from 1934 and on aircraft procurement from 1939. Renegotiation, as such, had its origin in the Renegotiation Act of 1942. In the Renegotiation Act of 1943, Congress defined the process more completely and prescribed specific factors to be considered in determining excessive profits. The termination date of the 1943 Act was December 31, 1945. Subsequently Congress enacted the Renegotiation Act of 1948, which had limited application.

The Renegotiation Board, created by the Renegotiation Act of 1951, has continued the work of the predecessor boards to assure that no excessive profits are realized by prime contractors and subcontractors as a result of large procurement outlays for defense and space purposes. The eighth extension of the Act, enacted in 1966, carried the coverage of the Act to June 30, 1968.

During the fiscal year the Administration, recognizing a continuing need for renegotiation, recommended to the Congress that the Act be extended for an indefinite period and that the so-called commercial exemption be removed in its entirety. After the close of the fiscal year, the Congress passed, and the President approved, a bill extending the Act for 3 years and tightening the existing commercial exemption provisions.

The purpose of the Renegotiation Act as defined by Congress—the elimination of excessive profits on Government contracts and related subcontracts—is accomplished both by Board proceedings resulting in refunds of excessive profits and by the voluntary actions of contractors. Determinations of excessive profits made by the Board during fiscal 1968 aggregated \$23,069,748, bringing the total since 1951 to \$975,505,785, before adjustment for Federal income and excess profits tax credits. Voluntary refunds and voluntary price reductions,

reported by contractors in connection with renegotiation proceedings, amounted to \$15,631,812 in fiscal 1968. Since the creation of the present Board and through June 30, 1968, such reported savings totaled \$1,315,753,071.

A. SCOPE OF RENEGOTIATION

The Act applies only to contracts with Government agencies specifically named in or designated pursuant to the Act,¹ and to related subcontracts. By virtue of exemptions granted in or pursuant to the Act, certain contracts even with these agencies are excluded from renegotiation.

Among the mandatory exemptions provided in the Act are those which exempt contracts and subcontracts for raw materials or agricultural commodities, contracts and subcontracts with common carriers, public utilities and tax-exempt organizations under certain circumstances, competitively bid construction contracts with some exceptions, and prime contracts which the Board determines do not have a direct and immediate connection with the national defense. Contracts and subcontracts for the sale of new durable productive equipment are partially exempt from renegotiation, and contracts and subcontracts for the sale of commercial articles or services are exempt under certain circumstances.

In addition to the mandatory exemptions provided in the Act, the Board itself is authorized to exempt certain other types of contracts or subcontracts from renegotiation. Among the permissive exemptions granted by the Board pursuant to this authority is the so-called "stock item" exemption. In general, this exemption applies to sales made to replenish stocks customarily maintained by a purchaser, except when the materials are specially purchased for use in performing renegotiable contracts.

B. ORGANIZATION OF THE RENEGOTIATION BOARD

The Renegotiation Act of 1951 created, for the first time, an independent agency, The Renegotiation Board, to administer renegotiation. The Act was made effective as of January 1, 1951, and contained provisions for the completion of 1943 and 1948 Act proceedings by the Board.

Under authority granted by the Act, the Board created regional boards to conduct renegotiation proceedings with contractors. Since January 1962, when a consolidation of regional boards was effected, all field activities of the Board have been conducted by two boards, the Eastern Regional Renegotiation Board in Washington, D.C., serv-

ing the eastern part of the United States, and the Western Regional Renegotiation Board in Los Angeles, Calif., serving the western part of the United States.

As of June 30, 1968, the Board's headquarters staff consisted of the following:

- Office of the Secretary.
- Office of Administration.
- Office of the Economic Advisor.
- Office of Assignments.
- Office of Accounting.
- Office of Review.
- Office of the General Counsel.

At each of the regional boards, the staff consisted of the Divisions of Administration, Accounting, Procurement Affairs, and Renegotiating, and the Office of the Regional Counsel.

C. THE RENEGOTIATION PROCESS

Under the statute, renegotiation is conducted not with respect to individual contracts, but with respect to the receipts or accruals under all renegotiable contracts and subcontracts of a contractor in the contractor's fiscal year. The contracts may vary in form from cost-plus-a-fixed-fee to firm fixed-price; they may be prime contracts or subcontracts; and they may relate to a variety of products and services. Also, they may be performed over differing periods: some may be completed within a single fiscal year of a contractor, while the performance of others may extend beyond such year. Accordingly, aggregate renegotiable profits in a given fiscal year of a contractor will often reflect the performance of several contracts in different stages of completion, and may result from an offset of losses or low profits on some contracts against high or even excessive profits on others. Thus fiscal-year renegotiation, which deals with aggregate profits, is entirely different from price adjustment or redetermination of individual contract prices pursuant to contract provisions.

Originally the Act required every contractor having renegotiable business to file a report with the Board, regardless of the amount involved. At the present time, contractors whose renegotiable sales, on a fiscal year basis, are below the \$1 million statutory "floor" may file or not, as they choose.

All reports are filed with the headquarters of the Board in Washington, D.C. Filings which show aggregate renegotiable sales below the statutory floor are reviewed to determine their acceptability. In the case of above-the-floor filings, if the profits are obviously not excessive, notices of clearance without assignment are usually issued. All cases not cleared in this manner are assigned to the regional boards for renegotiation, usually on a geographic basis. In each assigned case,

¹ These agencies are the Departments of Defense, the Army, the Navy, and the Air Force, the Maritime Administration, the Federal Maritime Board, the General Services Administration, the National Aeronautics and Space Administration, the Atomic Energy Commission, and the Federal Aviation Administration.

the regional board formally commences renegotiation, obtains such additional information as it may need, and then determines whether the contractor has realized excessive profits, and if so, in what amount.

The Board has delegated to the regional boards final authority to issue clearances or make refund agreements in cases involving aggregate renegotiable profits of \$800,000 or less. If, in a refund case, the contractor refuses to accept the determination, i.e., declines to enter into an agreement, the regional board issues an order directing the payment of the refund. From such an order, the contractor has a right of appeal to the Board.

In cases involving more than \$800,000 renegotiable profits, the regional boards do not have final authority, and their recommendations must be approved by the Board before refund agreements may be executed or clearances issued. If a regional board recommendation is not acceptable to either the Board or the contractor, the case is reassigned from the regional board to the Board for further processing and completion.

Reassigned cases are handled initially by divisions of the Board consisting of one or more Board members. The divisions make recommendations to the full Board for the final disposition of the cases.

Proceedings of the Board are informal and nonadversary, and the functions exercised by the Board are excluded from the operations of the Administrative Procedure Act except as to the public information requirements of Section 3 thereof. The aim is to reach agreement for the elimination of excessive profits found to exist. Where agreements are not reached, contractors may seek a redetermination of any final order of the Board determining excessive profits by filing a petition in the Tax Court of the United States. The hearing in the Tax Court is de novo.

D. MEANING OF EXCESSIVE PROFITS

For purposes of renegotiation, profits are defined as the excess of the amount received or accrued under renegotiable contracts and subcontracts over the costs paid or incurred with respect thereto and determined to be allocable thereto. All items estimated to be allowed as deductions and exclusions under Chapter I of the Internal Revenue Code (excluding taxes measured by income) must, to the extent allocable to renegotiable business, be allowed as items of costs. Here renegotiation differs from procurement; procurement regulations are more restrictive with respect to costs that may be allowed for contracting purposes.

What part, if any, of the profits thus defined is excessive, is determined on the basis of the statutory definition of excessive profits contained in Section 103(e) of the Act:

Excessive profits.—The term “excessive profits” means the portion of the profits derived from contracts with the Departments and subcontracts which is deter-

mined in accordance with this title to be excessive. In determining excessive profits, favorable recognition must be given to the efficiency of the contractor or subcontractor, with particular regard to attainment of quantity and quality production, reduction of costs, and economy in the use of materials, facilities, and manpower; and in addition, there shall be taken into consideration the following factors:

- (1) Reasonableness of costs and profits, with particular regard to volume of production, normal earnings, and comparison of war and peacetime products;
- (2) The net worth, with particular regard to the amount and source of public and private capital employed;
- (3) Extent of risk assumed, including the risk incident to reasonable pricing policies;
- (4) Nature and extent of contribution to the defense effort, including inventive and developmental contribution and cooperation with the Government and other contractors in supplying technical assistance;
- (5) Character of business, including source and nature of materials, complexity of manufacturing technique, character and extent of subcontracting, and rate of turn-over;
- (6) Such other factors the consideration of which the public interest and fair and equitable dealing may require, which factors shall be published in the regulations of the Board from time to time as adopted.

It is apparent from the statutory language that no formulae or pre-established rates can be used to determine whether profits are, or are not, excessive in any given case. Rather, the determination in each instance must reflect the judgment of the Board on the application of each of the statutory factors to the facts of the specific case.

In eliminating excessive profits, credit is allowed for Federal income taxes, and adjustment is made for State income taxes attributable to the nonexcessive renegotiable profits.

II. Changes in Regulations During the Fiscal Year

Following are the most important changes in the regulations in the fiscal year ended June 30, 1968:

1. The Board extended through December 31, 1966, the exemption for prime contracts for water transportation by common carrier at rates not in excess of rates regulated by the Federal Maritime Commission, and prime contracts with the Military Sea Transportation Service at established rates based upon the manifest measurement or weight of cargo.

2. The “stock item” exemption applicable to sales of materials customarily purchased for stock in the normal course of the purchaser’s business was further extended by the Board through June 30, 1968. This exemption has been in effect throughout the life of the Act.

III. Changes in Operating Procedures During the Fiscal Year

There were no significant changes in operating procedures during the fiscal year ended June 30, 1968.

IV. Filings; Screening, Processing, and Completions

The workload of the Board is directly related to the volume of procurement by the agencies covered, especially the Department of Defense. Defense procurement rose strongly in fiscal 1966 and again in fiscal 1967. The resulting upswing in the volume of the Board's work is reflected in the data presented below.

A. FILINGS BY CONTRACTORS

Every contractor having renegotiable business in excess of the statutory minimum must file a report with the headquarters of the Board. Reflecting the impact of the Vietnam conflict, the number of such above-the-floor filings received by the Board rose to 4,552 in fiscal 1968. The record of the past 4 years is given below:

<i>Filings Received</i>	
<i>Fiscal Year</i>	<i>Number</i>
1965-----	3, 673
1966-----	3, 387
1967-----	3, 737
1968-----	4, 552

Contractors whose renegotiable sales are below the statutory minimum may file reports with the Board, but they are not required to do so. A considerable number of such contractors usually elect to file. The number of such below-the-floor filings received by the Board in fiscal 1968 was 2,328.

B. SCREENING AT HEADQUARTERS

The processing of contractors' filings begins at the headquarters of the Board. In this screening process, each filing which shows renegotiable business above the statutory minimum is examined to determine the acceptability of the contractor's segregation of sales and allocation of costs. The available information is then evaluated to determine whether the filing should be assigned to the field for further processing or whether it should be cleared at headquarters without assignment. In fiscal 1968, 4,354 above-the-floor filings (including those of brokers and manufacturers' agents) were thus screened. The record of the past 4 years is shown in the table below:

<i>Filings Screened</i>	
<i>Fiscal Year</i>	<i>Number</i>
1965-----	3, 691
1966-----	3, 372
1967-----	3, 782
1968-----	4, 354

When a contractor's report shows a loss or obviously nonexcessive profits on renegotiable business, action on the filing is usually completed at headquarters by the issuance of a notice of clearance without assignment. Of the 4,354 above-the-floor filings screened during fiscal 1968, 3,527, or 81 percent, were thus cleared at headquarters without assignment to a regional board. Filings not disposed of as a result of the headquarters screening process are assigned to the regional boards. Reflecting the impact of the Vietnam conflict on the profitability of defense business, the number of filings thus assigned rose to 827 in fiscal 1968. The record of the past 4 years is given in the table below:

Disposition of Filings Screened

<i>Fiscal year</i>	<i>Number screened</i>	<i>Cleared at headquarters</i>		<i>Assigned</i>	
		<i>Number</i>	<i>Percent of total</i>	<i>Number</i>	<i>Percent of total</i>
1965-----	3, 691	3, 336	90. 4	355	9. 6
1966-----	3, 372	2, 928	87. 0	444	13. 0
1967-----	3, 782	3, 147	83. 2	635	16. 8
1968-----	4, 354	3, 527	81. 0	827	19. 0

The average time required for screening a filing was 39 days in fiscal 1968.

C. PROCESSING OF ASSIGNMENTS

Cases assigned to the regional boards generally require time-consuming examination and analysis. In fiscal 1968, the regional boards completed the processing of 567 assignments; as of June 30, 1968, the number of pending assignments was 938. The trend in regional board workload over the last 4 years is indicated in the table below:

Regional Board Workload

<i>Fiscal year</i>	<i>Assignments received</i>	<i>Assignments completed</i>	<i>Ending backlog</i>
1965-----	355	457	422
1966-----	444	402	464
1967-----	635	421	678
1968-----	827	567	938

As the table indicates, in spite of growing staff productivity, the backlog in the regional boards rose sharply during the last 2 fiscal years.

Of the 567 assignments processed by the regional boards in fiscal 1968, 329 were completed by refund agreement, clearance, or decision not to proceed, and 238 were transferred to the headquarters of the Board for further processing.

Headquarters completed the processing of 252 assignments during the fiscal year.

D. COMPLETIONS

As of June 30, 1967, the total number of filings and assignments pending at headquarters and the regional boards was 1,030. During fiscal 1968, the Board received 4,552 new filings and completed the processing of 4,108 filings and assignments, leaving an ending inventory of 1,474.

As pointed out earlier, the average time for the processing of filings in the screening process was 39 days in fiscal 1968. The average time for the processing of assignments through the regional boards and headquarters was 15 months. Cases assigned to the regional boards require more extensive examination and analysis than those screened out at headquarters. For this reason the average time for the completion of such cases is much greater.

V. Renegotiable Sales and Profits

In fiscal 1968, 4,027 above-the-floor filings of contractors, other than brokers or manufacturers' agents, were screened. These filings represented \$38.8 billion of renegotiable sales. The comparable figure for fiscal 1967 was \$33.1 billion.

The composition of renegotiable sales, as disclosed in contractors' filings, is set forth in the following table:

Renegotiable Sales Reviewed in Fiscal 1968, by Contract Type

	[In millions of dollars]							
	Total		Prime contracts		Subcontracts		Management fees	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Fixed price..	\$22,449	57.9	\$14,714	50.8	\$7,734	78.9	\$1	6.2
Fixed price incentive..	3,962	10.2	3,488	12.0	474	4.8	0	.0
Cost-plus-fixed-fee..	5,556	14.3	4,884	16.9	672	6.8	0	.0
Cost-plus-incentive-fee.....	4,664	12.0	3,970	13.7	693	7.1	0	.0
Other.....	2,142	5.5	1,897	6.6	231	2.4	15	93.8
Total..	38,773	100.0	28,952	100.0	9,804	100.0	16	100.0

NOTE: Details do not add to totals because of rounding.

The above table, when compared with data for earlier fiscal years, shows the continuing effects of a changing procurement policy. In fiscal 1968 the percentage of CPFF sales continued to decline while

the percentage of fixed-price sales continued to rise. Sales under incentive-type contracts now shown separately in the table were included in "other" sales in earlier annual reports.

Of the 4,027 nonagent contractors whose filings were reviewed in fiscal 1968, 3,351, with renegotiable sales of \$35.3 billion, showed a profit of \$1.9 billion, and 676, with renegotiable sales of \$3.5 billion, showed a loss of \$215 million. When compared with earlier fiscal years, these figures indicate a continuing decline in both the number of "loss" contractors and the amount of "loss" sales. Details are given in the tables below:

TABLE I.—Sales and Profits of Companies Reporting Net Renegotiable Profits

	[In millions of dollars]			
	Renegotiable sales		Renegotiable profits	
	Amount	Percent of total	Amount	Percent of total
Fixed price.....	\$19,611	55.6	\$1,228	64.3
Fixed price incentive.....	3,822	10.8	227	11.9
Cost-plus-fixed-fee.....	5,258	14.9	182	9.5
Cost-plus-incentive-fee.....	4,641	13.2	214	11.2
Other.....	1,927	5.5	59	3.1
Total.....	35,260	100.0	1,909	100.0

TABLE II.—Sales and Profits of Companies Reporting Net Renegotiation Losses

	[In millions of dollars]			
	Renegotiable sales		Renegotiation losses	
	Amount	Percent of total	Amount	Percent of total
Fixed price.....	\$2,838	80.8	\$187	87.0
Fixed price incentive.....	140	4.0	16	7.4
Cost-plus-fixed-fee.....	297	8.5	2	.9
Cost-plus-incentive-fee.....	23	.7	2	.9
Other.....	215	6.1	8	3.7
Total.....	3,513	100.0	215	100.0

NOTE: Details do not add to totals because of rounding.

It should be noted that profit and loss figures in the above tables are, to a substantial degree, on the Federal income tax basis; also, they are net figures, reflecting the presence of both profitable and loss contracts in individual cases. Furthermore, the figures are based on costs allowed for renegotiation purposes, and such allowances differ in significant respects from costs allowable for procurement purposes.

Renegotiable business, as a whole, is composed of manufacturing, construction, service, and other activities connected with the national defense and space programs, often undertaken on contract terms which differ from terms used in commercial business, and under different circumstances. These activities are carried on by a variety of companies that are either wholly, partially, or only nominally in the defense or space fields. The commercial operations of such companies may or may not be comparable to their renegotiable business. Moreover, the statutory floor and various exemptions in the Act annually exclude from renegotiation several billions of dollars of defense sales of unknown profitability. These factors, together with wide variances in the profit experience of contractors, significantly limit the value of any generalization, on the basis of the data reported here, about the profitability of defense business as a whole or of the \$38.8 billion of renegotiable sales reviewed by the Board in fiscal 1968.

VI. Excessive Profits Determinations

In fiscal 1968, the Board made 46 determinations of excessive profits, totaling \$23,069,748. From its inception through June 30, 1968, the Board made 3,801 determinations of excessive profits, totaling \$975,505,785.

Also, in fiscal 1968 contractors reported to the Board voluntary refunds and price reductions in the amount of \$15,631,812. This brought the total of such refunds and price reductions reported since the inception of the Board to \$1,315,753,071. Such refunds and price reductions are wholly voluntary, and are to be distinguished from price reductions made under the terms of price-redeterminable contracts.

The determinations of excessive profits in the amount of \$975,505,785 are after State income tax adjustments but before the deduction of credits for Federal income and excess profits taxes. As of June 30, 1968, net recoveries by the Government after such tax adjustments and credits amounted to \$382,706,358. Of this amount, the sum of \$13,319,382 resulted from determinations made during fiscal 1968. Net recoveries by the Government arising from determinations of excessive profits are covered into the Treasury as miscellaneous receipts. They do not revert to departmental funds.

Determinations of excessive profits, broken down by the Government fiscal years in which they were made, are as follows:

<i>Fiscal year</i>	<i>Total</i>
1953.....	\$19,970,771
1954.....	119,463,169
1955.....	167,256,288
1956.....	152,649,327
1957.....	150,991,300
1958.....	112,724,199
1959.....	60,757,877
1960.....	52,708,003
1961.....	17,200,093
1962.....	7,844,467
1963.....	10,069,536
1964.....	24,160,028
1965.....	16,146,803
1966.....	24,513,962
1967.....	15,980,214
1968.....	23,069,748
Total.....	975,505,785

NOTE: The above total includes determinations of \$33,185,470 made pursuant to the 1943 and 1948 acts.

The annual record of determinations for the period covered in the foregoing table was influenced by several factors. As late as 1958, determinations made by the Board reflected the high profits attributable to the emergency procurement conditions of the Korean conflict. In the early part of the period, cost-plus-a-fixed-fee contracts (which generally carry lower profits than other types of contracts) were used on a relatively small scale. Subsequently, however, the use of such contracts increased. Thus, although in recent years procurement agencies curtailed the use of CPFF contracts, CPFF sales still represented 14.3 percent of the total of \$38.8 billion renegotiable business reviewed by the Board in fiscal 1968. Another factor was the curtailment of the Board's jurisdiction through increases in the statutory floor and the enactment of various exemptions.

The Act provides that the Board shall endeavor to reach an agreement with a contractor on the amount of excessive profits, if any, and that the Board shall issue an order determining excessive profits only if an agreement is not made. Of the 46 determinations of excessive profits made by the Board during fiscal 1968, 27 resulted in agreements between the Board and the contractors involved; 19 resulted in the issuance of unilateral orders. As the table below indicates, the Board made 3,801 determinations of excessive profits through June 30, 1968, and 3,402, or 89.5 percent of such determinations, were agreed to by contractors. These agreements accounted for \$689 million, or 70.6 percent, of the total amount of excessive profits determined. Details are as follows:

Excessive Profits Determinations: Agreements and Unilateral Orders:

TABLE I.—*Number of Determinations*

	Total	By agree- ment	Percent of total	By order	Percent of total
Through June 30, 1967.....	3,755	3,375	89.9	380	10.1
Fiscal year 1968.....	46	27	58.7	19	41.3
Total.....	3,801	3,402	89.5	399	10.5

TABLE II.—*Amount of Determinations*

[In millions of dollars]

	Total	By agree- ment	Percent of total	By order	Percent of total
Through June 30, 1967.....	\$952.44	\$682.33	71.6	\$270.11	28.4
Fiscal year 1968.....	23.07	6.20	26.9	16.87	73.1
Total.....	975.51	688.53	70.6	286.98	29.4

VII. Appeals

When a contractor does not agree with a determination of excessive profits, the Board issues a unilateral order directing the contractor to pay to the Government the amount of excessive profits to be eliminated.

As shown in the preceding section, 19 of the 46 determinations of excessive profits made by the Board during fiscal 1968 resulted in unilateral orders. Under the Act, contractors have a right to petition the Tax Court of the United States for redetermination. Eight of the 19 unilateral orders issued by the Board were appealed to the Court during the fiscal year and, as of June 30, 1968, the time for appealing 10 orders had not expired.

From the inception of the Board through June 30, 1968, 152 of the 399 unilateral orders issued by the Board were appealed to the Tax Court. Details are set forth in the following table:

Excessive Profits Determinations Taken to the Tax Court as of June 30, 1968

Fiscal year of Board determination	Number of determinations	Amount of determinations
1953.....	0	0
1954.....	7	\$310,119
1955.....	12	5,610,285
1956.....	16	12,678,321
1957.....	25	36,693,939
1958.....	17	31,506,588
1959.....	11	18,743,297
1960.....	19	27,252,429
1961.....	10	8,497,330
1962.....	3	344,172
1963.....	8	5,372,151
1964.....	5	8,979,225
1965.....	3	1,946,447
1966.....	4	4,325,518
1967.....	4	8,956,078
1968.....	8	746,149
Total.....	152	171,962,048

During fiscal 1968, the Tax Court disposed of nine cases. As the table below indicates, as of June 30, 1968, the Court had disposed of a total of 120 cases, leaving 32 pending on that date.

Renegotiation Cases in the Tax Court

	Total filed	Dismissed	Closed by stipulation	Closed by redetermination	Pending
Through June 30, 1967.....	142	49	33	29	31
Fiscal year 1968.....	10	4	2	3	1
Total.....	152	53	35	32	32

The aggregate amount of excessive profits determinations involved in the 32 pending cases is \$28,934,080.

The 120 cases concluded in the Tax Court as of June 30, 1968 involved Board determinations of excessive profits in the amount of \$166 million. The Court upheld the Board's determination in 72 of the 120 cases reviewed; in six cases the determinations were increased and in 42 they were decreased. Details are set forth in the following table:

Tax Court Action on Board Determinations

Court action ending in—	Number of determinations				Amount of Board determinations	Amount of Court redeterminations
	Total	Upheld	Modified upward	Modified downward		
Dismissal.....	53	53	----	----	\$49, 157, 525	\$49, 157, 525
Stipulation.....	35	2	4	29	83, 093, 411	74, 464, 056
Redetermination.....	32	17	2	13	33, 465, 000	32, 096, 000
Total.....	120	72	6	42	165, 715, 936	155, 717, 581

¹ Before State tax credits, except in one case.

Section 108A of the Act, to a limited extent, authorizes appeals of renegotiation decisions of the Tax Court to appellate courts. As of June 30, 1968, there were no cases pending in the Courts of Appeals.

VIII. Exemption of Commercial Articles and Services

Section 106(e) of the Act, enacted in August 1956, amended the previous provisions governing the mandatory exemption of standard commercial articles and services, and substituted new provisions for contractors' fiscal years ending after June 30, 1956. The new exemption was made self-executing with respect to articles meeting certain conditions while, in the case of other articles, it was made available only upon application to the Board.

In fiscal 1968, contractors who filed reports with the Board indicated self-application of the exemption in the amount of \$860.2 million. The Board has no way of knowing or estimating the amount of sales that was treated as exempt in the fiscal year by contractors who did not file reports with the Board because their renegotiable sales were below the floor.

In fiscal 1968 there were 387 applications to the Board for commercial exemption. Data respecting Board action on these applications are set forth in the following table:

Application for Commercial Exemption

[Sales in thousands of dollars]

	Number of applications	Amount of exemptions applied for	Amount of exemptions approved	Amount of exemptions denied
Through June 30, 1967.....	2, 066	\$4, 883, 531	\$4, 563, 523	\$320, 008
Fiscal year 1968.....	387	1, 281, 929	1, 223, 812	58, 117
Total.....	2, 453	6, 165, 460	5, 787, 335	378, 125

It is noteworthy that applications for commercial exemption in the amount of \$1,282 million in fiscal 1968 represented a 91 percent increase over the amount of exemptions applied for in fiscal 1967.

IX. Expenses and Personnel

The number of personnel on duty at headquarters and at the regional boards on June 30 of each fiscal year from 1952 to 1968, and details of the Board's expenses during these years are set forth in the tables below:

Number of Personnel

Fiscal year	Total	Headquarters	Regional Boards
1952.....	558	169	389
1953.....	742	178	564
1954.....	639	174	465
1955.....	540	193	347
1956.....	466	181	285
1957.....	359	155	204
1958.....	328	142	184
1959.....	301	136	165
1960.....	284	130	154
1961.....	271	123	148
1962.....	193	114	79
1963.....	223	131	92
1964.....	206	121	85
1965.....	184	108	76
1966.....	179	101	78
1967.....	178	102	76
1968.....	184	96	88

Renegotiation Board Expenses Through June 30, 1968

Fiscal year	Total	Salaries	All other
1952.....	\$1, 606, 259	\$1, 176, 003	\$430, 256
1953.....	5, 093, 308	4, 443, 662	649, 646
1954.....	5, 116, 806	4, 823, 730	293, 076
1955.....	4, 388, 924	4, 159, 975	228, 949
1956.....	3, 860, 987	3, 632, 357	228, 630
1957.....	3, 514, 032	3, 320, 272	193, 760
1958.....	3, 028, 037	2, 729, 362	298, 675
1959.....	3, 003, 657	2, 702, 100	301, 557
1960.....	2, 814, 200	2, 511, 119	303, 081
1961.....	2, 911, 684	2, 600, 646	311, 038
1962.....	2, 579, 513	2, 246, 385	333, 128
1963.....	2, 325, 462	2, 024, 826	300, 636
1964.....	2, 507, 482	2, 229, 818	277, 664
1965.....	2, 577, 345	2, 286, 223	291, 122
1966.....	2, 468, 887	2, 180, 394	288, 493
1967.....	2, 536, 251	2, 238, 484	297, 767
1968.....	2, 630, 927	2, 343, 765	287, 162
Total.....	52, 963, 761	47, 649, 121	5, 314, 640

Filed
5-13-69
#87

THE RENEGOTIATION BOARD

During the Administration of .

PRESIDENT LYNDON B. JOHNSON

November 1963 - January 1969

Vol. I Administrative History

PREFACE

By November 1963, when President Lyndon B. Johnson took office, renegotiation, in one form or another, had been on the statute books for over twenty years and had become an essential part of our governmental processes.

The President recognized this fact when, on July 1, 1966, he said, upon signing H.R. 13431 which extended the Renegotiation Act of 1951 for an additional two years:

The Renegotiation Act has served this Nation well for the past 15 years.

We need this vital measure. It is another important tool in our constant quest to get a dollar's worth of value for every defense dollar spent.

Our struggle for freedom's cause in Viet-Nam makes the extension of this act appropriate.

The act is just. It does not penalize a defense contractor's efficiency or deny him a fair profit. But it does determine, under carefully defined criteria, whether the profit is excessive. If so, that profit is returned to the Government.

The renegotiation process has saved large amounts for the American taxpayer.

FOREWORD

This Administrative History of The Renegotiation Board of the United States during the administration of President Lyndon B. Johnson was prepared under the supervision of Charles H. Swayne, Director, Office of Review, and a committee composed of Howard W. Fensterstock, General Counsel; Ross M. Girard, Director, Office of Accounting; George Lenches, Economic Advisor; Edward F. Ryan, Executive Assistant to the Chairman; Paul T. Semple, Director, Office of Assignments; and Harold E. Stone, Director, Office of Administration. Edward J. Peters, Jr., of the office of the General Counsel, provided staff assistance.

The preparation of the annual reports, submitted as a documentary supplement, is the responsibility of the Economic Advisor.

HISTORY OF RENEGOTIATION

DURING THE ADMINISTRATION OF PRESIDENT LYNDON B. JOHNSON

Renegotiation was instituted shortly after the entry of the United States into World War II. Its purpose is to eliminate excessive profits on defense contracts and subcontracts. Except for a brief interval, renegotiation has been in existence to the present time.

In the Renegotiation Act of 1943, Congress prescribed specific factors to be considered in determining excessive profits. This Act terminated on December 31, 1945. Subsequently, Congress enacted the Renegotiation Act of 1948, which had limited application. Because of the large expenditures for the Korean conflict, Congress, in 1951, enlarged the scope of the renegotiation law and created an independent board in the executive branch of the Government to assume responsibility for the renegotiation of defense contracts. The Renegotiation Act of 1951 is still in force.

The following brief history supplements more detailed information set forth in published annual reports of the agency, copies of which are submitted herewith.

Outline of the Renegotiation Process

At the present time, every contractor whose renegotiable sales, on a fiscal year basis, exceed the \$1 million statutory "floor" must file a report. Contractors below the floor may file or not, as they choose.

All reports are filed with the headquarters of the Board in Washington, D. C. Filings which show aggregate renegotiable sales below the statutory floor are reviewed to determine their acceptability. In the case of above-the-floor filings, if the profits are obviously not excessive, notices of clearance without assignment are usually issued. All cases not cleared in this manner are assigned to the regional boards for renegotiation, usually on a geographic basis. In each assigned case, the regional board formally commences renegotiation, obtains such additional information as it may need, and then determines whether the contractor has realized excessive profits, and if so, in what amount.

The Board has delegated to the regional boards final authority to issue clearances or make refund agreements in cases involving aggregate renegotiable profits of \$800,000 or less. If, in a refund case, the contractor refuses to accept

the determination, i. e. , declines to enter into an agreement, the regional board issues an order directing the payment of the refund. From such an order, the contractor has a right of appeal to the Board.

In cases involving more than \$800,000 renegotiable profits, the regional boards do not have final authority, and their recommendations must be approved by the Board before refund agreements may be executed or clearances issued. If a regional board recommendation is not acceptable to either the Board or the contractor, the case is reassigned from the regional board to the Board for further processing and completion.

Reassigned cases are handled initially by divisions of the Board consisting generally of three Board members. The divisions make recommendations to the full Board for the final disposition of the cases.

Contractors may obtain a redetermination of any final order of the Board determining excessive profits by filing a petition in the Tax Court of the United States.

Organization

During the period the Board operated with a Headquarters office and an Eastern Regional Board in Washington, D. C., and a Western Regional Board in Los Angeles, California.

No changes were made in the composition of the statutory Board during this period. Members of the Board were:

Lawrence E. Hartwig, Chairman
Herschel C. Loveless
Thomas D'Alesandro, Jr.
William M. Burkhalter
Jack Beaty

All policy decisions are made by the statutory Board. The agency is involved in a single program, described earlier.

Operations

For the fiscal years 1964 through 1968, the number of filings processed and the disposition thereof were as follows:

<u>Fiscal Year</u>	<u>Processed Filings</u>	<u>Cleared Without Assignment</u>	<u>Percent of Total</u>	<u>Assigned to Regional Boards</u>
1964	4,383	3,881	88.4	502
1965	3,691	3,336	90.4	355
1966	3,372	2,928	86.8	444
1967	3,782	3,147	83.2	635
1968	4,354	3,527	81.0	827

The 4,354 filings shown above for 1968 were processed in an average of 39 days. The clearance of a large number of filings

at the Headquarters Board, without assignment to the field, results in substantial savings of time and expense for both the Government and contractors.

From its inception through June 30, 1968, the Board made 3,801 determinations of excessive profits, totaling \$975,505,785. The following table sets forth a year-by-year tabulation for the period covered by this history:

<u>Fiscal Year</u>	<u>Total</u>
1964	\$24,160,028
1965	16,146,803
1966	24,513,962
1967	15,980,214
1968	23,069,748

Further, contractors reported to the Board voluntary refunds and price reductions in the amount of \$1,315,753,071. Of this total, \$126,698,941 were reported during the period of the Johnson Administration.

From the inception of the Board through June 30, 1968, 3,402 agreements were reached with contractors on the amount of excessive profits and the Board issued 399 unilateral orders determining excessive profits. Of the 399 orders issued, 152 were appealed to the Tax Court. A year-by-year tabulation is

set forth in the table entitled, "Excessive Profits Determinations Taken to the Tax Court as of June 30, 1968," in the 13th Annual Report.

Compliance with the President's Economy Directives

The various actions of the Board in pursuance of the President's economy program, and the tangible results of this continuing effort to achieve greater efficiency and economy, have been described in detail in periodic reports to the President pursuant to Bureau of the Budget Circular A-64. Significant improvements included the following: Reorganization of two staff offices along functional lines; limited conversion to automatic data processing equipment; consolidation of two major file systems and elimination of 32 per cent of files on hand; elimination of approximately 50 reports and forms; introduction of labor-saving procedures for obtaining procurement data from Government departments; and simplification and clarification of the two forms and related instructions used by contractors in reporting for renegotiation purposes. For the first time, both the revised forms and instructions were combined into a booklet for ease of handling, addressing and mailing.

Compliance with
President's Directives

The following tabulation shows the trend in the Board's volume of work, completion of work, and total employment during the Johnson Administration. It demonstrates the effect of sustained effort to comply with the President's economy directives. Total employment was reduced from 215 in fiscal 1964 to a low of 172 in 1967, a 20 per cent reduction. In fiscal 1968, an all-time high in productivity was reached in the field. In the overall view, more work was accomplished in that year than in 1964, with 18.6 per cent less personnel. The saving through greater productivity in 1968, as compared with 1964, is estimated at \$425,000.

	<u>FY</u> <u>1964</u>	<u>FY</u> <u>1965</u>	<u>FY</u> <u>1966</u>	<u>FY</u> <u>1967</u>	<u>FY</u> <u>1968</u>
<u>Volume of Work</u>					
Above "floor" filings received	4,007	3,673	3,387	3,737	4,552
Filings assigned to the field	502	355	444	635	827
<u>Completion of Work</u>					
Filings screened at Headquarters	4,383	3,691	3,372	3,782	4,354
Assignments processed in the field	521	457	402	421	567
<u>Total Average Personnel</u>	215	192	175	172	175

Legislative History

The Renegotiation Act of 1951 was approved March 23, 1951, initially for a period of three years. It was extended seven times before Mr. Johnson took office as President.

The Extension to June 30, 1966 (Public Law 88-339; 78 Stat. 223)

The Board, on behalf of the Johnson Administration, recommended that the Act be further extended for four years. H. R. 10669, introduced April 6, 1964, by the Chairman of the House Ways and Means Committee, proposed to extend the Act for two years and to make the provisions of the Act applicable to contracts with the Federal Aviation Agency, and related subcontracts, after June 30, 1964.^{1/} The bill was approved by the committee on April 15, 1964 and passed by the House on April 29, 1964.^{2/}

On June 24, 1964, the Senate Finance Committee reported favorably H. R. 10669 without amendment.^{3/} The following day, June 25, 1964, the Senate passed it. President Johnson approved the Act on June 30, 1964.^{4/}

^{1/} H. R. 10669, 88th Congress 2d; introduced by Mr. Mills, April 6, 1964

^{2/} House Report (Ways and Means Committee No. 1323, April 15, 1964)

^{3/} Senate Report (Finance Committee No. 1105, June 24, 1964)

^{4/} Public Law 88-339, 78 Stat. 233

The Extension to June 30, 1968 (Public Law 89-480)

By letter dated February 4, 1966, the Renegotiation Board recommended on behalf of the Administration a six-year extension of the Act. On March 9, 1966, the Chairman of the House Ways and Means Committee introduced H.R. 13431 to extend the Act for two years.^{5/} On June 6, 1966, the Ways and Means Committee reported the bill favorably.^{6/} It was passed by the House without amendment on June 16, 1966.

The Senate Committee on Finance reported the House bill favorably on June 22, 1966, and on June 24 the Senate passed it without amendment. It was approved by the President on June 30, 1966.^{7/}

The Extension to June 30, 1971 (Public Law 90-634)

Increased public interest in renegotiation was generated by the heavy acceleration in defense procurement resulting from the Vietnam conflict. As a consequence, various bills were introduced to broaden the scope of the Act and strengthen the Board.

^{5/} H.R. 13431, 89th Congress 2d; introduced by Mr. Mills, March 9, 1966

^{6/} House Report No. 1610 (Committee on Ways and Means), 89th Congress 2d, June 6, 1966

^{7/} Public Law 89-480, 89th Congress, 80 Stat. 232

By letter dated February 23, 1968, the Renegotiation Board recommended on behalf of the Administration, for the first time, that the Act be made permanent law. Also for the first time, the Board recommended repeal of the exemption for standard commercial articles and services. After public hearings, on May 16, 1968, the Chairman of the House Ways and Means Committee introduced H.R. 17324 to extend the Act for three years and to amend the commercial exemption provisions.^{8/}

On May 20, 1968, the Ways and Means Committee reported the bill favorably and on May 27, 1968 the House debated and passed the bill without amendment.^{9/}

On July 11, 1968, the Senate Finance Committee reported favorably H.R. 17324 with amendments.^{10/} On July 26, after recommittal of the bill to the Finance Committee, the amended bill was again reported favorably with two non-germane riders attached.^{11/} The bill was passed by the Senate on September 11.

^{8/} H.R. 17324, 90th Congress 2d; introduced by Mr. Mills, May 28 (legislative day, May 27), 1968

^{9/} House Report (Ways and Means Committee No. 1398, May 20, 1968)

^{10/} Senate Report (Finance Committee No. 1385, July 11, 1968)

^{11/} Senate Report (Finance Committee No. 1385, Part 2, July 26, 1968)

After conference, the House accepted the Senate amendments on
October 10. President Johnson signed the measure into law on
October 24, 1968.^{12/}

^{12/} Public Law No. 90-634

Volume II

Filed
5-13-69
87

THE RENEGOTIATION BOARD

During the Administration of

PRESIDENT LYNDON B. JOHNSON

November 1963 - January 1969

Vol. II Documentary Supplement

The

RENEGOTIATION BOARD

Ninth Annual Report

1964



Letter of Transmittal

The Renegotiation Board
Washington, D.C.
December 31, 1964

To the Congress of the United States:

I have the honor to transmit to you the Ninth Annual Report of The Renegotiation Board, covering the fiscal year July 1, 1963 through June 30, 1964, as required by Section 114 of the Renegotiation Act of 1951, as amended.

LAWRENCE E. HARTWIG,
Chairman.

THE PRESIDENT OF THE SENATE
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

The Renegotiation Board

Contents

Members of the Board:

LAWRENCE E. HARTWIG, *Chairman* ¹

HERSCHEL C. LOVELESS ²

THOMAS D'ALESSANDRO, Jr. ³

WILLIAM M. BURKHALTER ⁴

JACK BEATY ⁵

Headquarters Office
1910 K Street NW.
Washington, D.C. 20446

	Page
I. THE PURPOSE AND PROCESS OF RENEGOTIATION.....	1
II. CHANGES IN REGULATIONS DURING THE FISCAL YEAR.....	4
III. CHANGES IN PRACTICES AND OPERATING PROCEDURES DURING THE FISCAL YEAR.....	5
IV. FILINGS; SCREENING, PROCESSING AND COMPLETIONS.....	5
V. RENEGOTIABLE SALES AND PROFITS.....	7
VI. REFUND DETERMINATIONS.....	9
VII. UNILATERAL ORDERS; APPEALS.....	11
VIII. EXEMPTION OF COMMERCIAL ARTICLES AND SERVICES.....	12
IX. EXPENSES AND PERSONNEL.....	18

¹ Appointed October 3, 1951, designated Chairman April 13, 1961.

² Appointed March 17, 1961.

³ Appointed March 28, 1961.

⁴ Appointed April 10, 1962.

⁵ Appointed February 28, 1963.

Ninth Annual Report of The Renegotiation Board

For the Fiscal Year Ended June 30, 1964

I. The Purpose and Process of Renegotiation

Profit limitation on defense contracts is a long-established national policy reflected in a succession of congressional enactments. The limitation of profit margins on naval ship procurement dates from 1934 and on aircraft procurement from 1939. Renegotiation had its origin in the Renegotiation Act of 1942. In the Renegotiation Act of 1943, Congress defined the renegotiation process more completely and adopted specific factors to be considered in determining excessive profits. The termination date of the 1943 Act was December 31, 1945. Subsequently Congress enacted the Renegotiation Act of 1948, which had limited application.

The present Renegotiation Board, created by the Renegotiation Act of 1951, has continued the work of the predecessor boards to assure that no excessive profits are realized by prime contractors and sub-contractors as a result of the continuing large Federal procurement outlays for defense and space purposes.

During the fiscal year, Congress recognized the continuing need for renegotiation by extending the Act through June 30, 1966.

Determinations of excessive profits during fiscal year 1964 aggregated \$24,160,028, bringing the total since 1951 to \$895,795,058, before adjustment for Federal income and excess profits tax credits. The policy embodied in the Renegotiation Act is also furthered by voluntary actions of defense contractors. In fiscal 1964, voluntary refunds and price reductions, reported in connection with renegotiation proceedings, amounted to \$41,097,044. Such reported savings totaled \$1,230,151,174 since the creation of the present Board. Thus, the purpose of the Renegotiation Act as defined by Congress—the elimination of excessive profits on Government contracts and related sub-contracts—is accomplished both by Board proceedings resulting in refunds of excessive profits and by the voluntary actions of contractors

A. SCOPE OF RENEGOTIATION

Under the statute, renegotiation is conducted not with respect to individual contracts, but with respect to the receipts or accruals of a contractor under all renegotiable contracts and subcontracts in a fiscal year of the contractor.

Not every Government contract is subject to renegotiation. The Act applies only to contracts with Government agencies specifically named in or designated pursuant to the Act,¹ and to related subcontracts. Furthermore, by virtue of exemptions granted in or pursuant to the Act, certain contracts even with those agencies are excluded from renegotiation.

Of the mandatory exemptions provided for in the Act, the most important are those which exempt contracts and subcontracts for raw materials or agricultural commodities, contracts and subcontracts with common carriers, public utilities and tax-exempt organizations under certain circumstances, competitively bid construction contracts with some exceptions, and prime contracts which the Board determines do not have a direct and immediate connection with the national defense. Contracts and subcontracts for the sale of new durable productive equipment are partially exempt from renegotiation, and contracts and subcontracts for the sale of commercial articles or services are exempt under certain circumstances.

In addition to the mandatory exemptions provided for in the Act, the Board itself is authorized to exempt certain other types of contracts or subcontracts from renegotiation. Of the permissive exemptions granted by the Board pursuant to this authority, the most important is the so-called "stock item" exemption. In general, this exemption applies to sales made to replenish stocks customarily maintained by a purchaser, except when made specially for use in performing renegotiable contracts.

Profits realized on renegotiable business are determined by charging against renegotiable receipts or accruals that portion of the contractor's costs and expenses which is determined to be allocable thereto. Excessive profits are defined in section 103(e) of the Act as follows:

Excessive profits.—The term "excessive profits" means the portion of the profits derived from contracts with the Departments and subcontracts which is determined in accordance with this title to be excessive. In determining excessive profits, favorable recognition must be given to the efficiency of the contractor or subcontractor, with particular regard to attainment of quantity and quality production, reduction of costs, and economy in the use of materials, facilities and manpower; and in addition, there shall be taken into consideration the following factors:

¹ For fiscal 1964 these agencies were the Department of Defense, the Army, the Navy, and the Air Force, the Maritime Administration, the Federal Maritime Board, the General Services Administration, the National Aeronautics and Space Administration, and the Atomic Energy Commission. Public Law 88-339, 88th Cong., approved June 30, 1964, added the Federal Aviation Agency for subsequent years.

(1) Reasonableness of costs and profits, with particular regard to volume of production, normal earnings, and comparison of war and peacetime products;

(2) The net worth, with particular regard to the amount and source of public and private capital employed;

(3) Extent of risk assumed, including the risk incident to reasonable pricing policies;

(4) Nature and extent of contribution to the defense effort, including inventive and developmental contribution and cooperation with the Government and other contractors in supplying technical assistance;

(5) Character of business, including source and nature of materials, complexity of manufacturing technique, character and extent of subcontracting, and rate of turnover;

(6) Such other factors the consideration of which the public interest and fair and equitable dealing may require, which factors shall be published in the regulations of the Board from time to time as adopted.

It is apparent from the statutory language that no formulae or pre-established rates can be used to determine whether profits are, or are not, excessive in any given case. The determination in each instance reflects the judgment of the Board on the application of each of the statutory factors enumerated above to the facts of the specific case.

B. ORGANIZATION OF THE RENEGOTIATION BOARD

The Renegotiation Act of 1951, approved March 23, 1951, created for the first time an independent agency, The Renegotiation Board, to administer renegotiation. The Act was made effective as of January 1, 1951, and contained special provisions for the completion of 1943 Act and 1948 Act proceedings by the Board.

The Board has created regional boards to conduct renegotiation proceedings with contractors. Since January 1962, when a consolidation occurred, all field activities have been conducted by two boards, the Eastern Regional Renegotiation Board in Washington, D.C., serving the eastern half of the United States, and the Western Regional Renegotiation Board in Los Angeles, Calif., serving the western part of the United States.

As of June 30, 1964, the Board's Headquarters Staff consisted of the following:

- Office of the Secretary.
- Office of Administration.
- Office of the Economic Advisor.
- Office of Assignments.
- Office of Accounting.
- Office of Review.
- Office of the General Counsel.

At each of the regional boards, the staff consisted of the Divisions of Administration, Accounting, Procurement Affairs, and Renegotiation, and the Office of the Regional Counsel.

C. OUTLINE OF THE RENEGOTIATION PROCESS

Originally the Act required every contractor having renegotiable business to file a report with the Board, regardless of the amount involved. At the present time, contractors whose renegotiable sales in a fiscal year are below the \$1 million statutory "floor" may file or not, as they choose.

All reports of contractors are examined at the Headquarters of the Board in Washington, D.C. Filings which show aggregate renegotiable sales below the statutory floor are reviewed to determine their acceptability. Where filings are above the floor, if the profits are obviously not excessive, the Headquarters Office issues a clearance notice to the contractor. All other cases are assigned to regional boards for renegotiation, usually on a geographic basis. In each case, a regional board commences renegotiation, obtains such additional information as it needs, and then determines whether the contractor realized excessive profits, and if so, in what amount.

The Board has delegated to the regional boards final authority to issue clearances and to make refund agreements in cases involving aggregate renegotiable profits of \$800,000 or less. When in any such refund case the contractor accepts the determination and all related matters are satisfactorily resolved, an agreement is made for the payment of the amount determined. Otherwise, the regional board issues an order directing such payment. From this order, the contractor has a right of appeal to the Board.

In cases involving more than \$800,000 renegotiable profits, the regional boards do not have final authority and their recommendations must be approved by the Board before agreements may be executed or clearances issued. If a regional board recommendation is not acceptable to either the Board or the contractor, the case is reassigned from the regional board to the Board for further processing and completion.

The contractor may obtain a redetermination of any final order of the Board, with which the contractor does not agree, by filing a petition in the Tax Court of the United States.

II. Changes in Regulations During the Fiscal Year

Following are the more important changes in the regulations in the fiscal year ended June 30, 1964:

1. The "stock item" exemption applicable to sales of materials customarily purchased for stock in the normal course of the purchaser's business was further extended by the Board through June 30, 1964. This exemption has been in effect throughout the life of the Act.

2. The Board extended through December 31, 1963, the exemption of prime contracts for water transportation by common carrier at rates not exceeding rates regulated by the Federal Maritime Commission, and prime contracts with the Military Sea Transportation Service at established rates based upon the manifest measurement or weight of cargo.

3. Provision was made whereby a contractor who is granted an extension by the Internal Revenue Service of the time for filing its Federal income tax return for a fiscal year, is not required to file its renegotiation report with the Board for such fiscal year until fifteen (15) days after the due date fixed in the document evidencing such extension of time, provided that a copy of such document is filed with the Board on or before the date when the contractor otherwise would be required to file such renegotiation report.

4. The Board issued a reprint of its regulations. To facilitate their use, the Board established an Appendix to which there have been, and will hereafter be, removed those regulations which by their terms apply exclusively to fiscal years ended more than three years before the date when such transfer occurs, and which are conveniently separable from their original context. Regulations so transferred will continue to apply with full force and effect to the fiscal years to which they were respectively applicable before such transfer. The main body of the regulations is thus confined to those having current application, and is easier to use.

III. Changes in Practices and Operating Procedures During the Fiscal Year

Various improvements were made during fiscal year 1964 to increase efficiency and reduce operating costs. As a part of this program, a new system of internal reporting was introduced to provide better control of the flow of cases through the renegotiation process.

IV. Filings; Screening, Processing, and Completions

A. FILINGS BY CONTRACTORS

A contractor having renegotiable business in excess of the statutory minimum must file a report with the Headquarters Office of the Board. The number of such above-the-floor filings received by the Board in fiscal 1964 was 4,007. The number of filings received in the preceding fiscal year was 3,913.

Contractors whose renegotiable sales are below the statutory minimum

may file reports with the Board, but they are not required to do so. A considerable number of such contractors usually elect to file. The number of such below-the-floor filings received by the Board in fiscal 1964 was 5,765. In the immediately preceding fiscal year the number of below-the-floor filings was 6,462.

B. SCREENING AT HEADQUARTERS

The processing of contractors' filings begins at the Headquarters of the Board. In this screening process, each filing which shows renegotiable business above the statutory minimum is examined to determine the acceptability of the contractor's segregation of sales and allocation of costs; the available information is then evaluated to determine whether the filing should be assigned to the field for further processing or whether it should be cleared at Headquarters without assignment. In fiscal 1964, 4,383 above-the-floor filings were thus screened. The corresponding figure for fiscal 1963 was 4,068.

When a contractor's report shows a loss or obviously nonexcessive profits, action on the filing is completed at Headquarters by the issuance of a notice of clearance without assignment. Of the 4,383 above-the-floor filings screened during fiscal 1964, 3,881, or 88.4 percent, were thus cleared at Headquarters without assignment to a regional board. In fiscal 1963, 3,517 or 86.4 percent of the 4,068 above-the-floor filings were disposed of in a similar manner.

Filings not disposed of as a result of the Headquarters screening process are assigned to the regional boards for renegotiation. In fiscal 1964, 502 filings were thus assigned.

The average time required for screening a filing was 59 days in fiscal 1964, as compared with 66 days in fiscal 1963. This reduction of processing time, despite a significant increase in the number of filings screened, was due to improved operating procedures adopted in fiscal 1964.

C. PROCESSING OF ASSIGNMENTS

Cases assigned to the regional boards generally involve substantial questions which require time-consuming examination and analysis. In fiscal 1964, the regional boards completed their processing of 521 assignments. Since there were 502 new assignments in the course of the fiscal year, the number of pending assignments decreased from 543 at June 30, 1963 to 524 as of June 30, 1964.

Since its inception and through June 30, 1964, the Board made 26,887 assignments; 26,363 or 98 percent of these were processed by the regional boards as of June 30, 1964.

Of the 521 assignments processed by the regional boards in fiscal 1964, 294 were completed by refund agreement, clearance or a decision not to proceed, and 227 were transferred to Headquarters Board for further processing.

The Headquarters Board completed the processing of 234 assignments during the fiscal year.

D. COMPLETIONS

As of June 30, 1963, the total number of filings and assignments pending at both Headquarters and the regional boards was 1,318. During fiscal 1964, the Board received 4,007 new filings and completed 4,409 filings and assignments, leaving an ending inventory of 916. This 30 percent decline in the inventory of pending cases resulted from a further increase in productivity during fiscal 1964.

As was pointed out earlier, the average time for completion of filings in the screening process was 59 days in fiscal 1964. The average time for completing assignments through the regional boards and Headquarters was 16 months. Cases assigned to the regional boards involve more extensive examination and analysis than those screened out at Headquarters. For this reason the average time for the completion of such cases is much greater.

V. Renegotiable Sales and Profits

In fiscal 1964, 3,990 above-the-floor filings of contractors, other than brokers or manufacturers' agents, were screened. These filings represented \$39.3 billion of renegotiable sales, compared with \$31.2 billion in fiscal 1963. Thus the upward trend of recent years in the volume of renegotiable sales reviewed by the Board continued in fiscal 1964.

The composition of renegotiable sales, as disclosed in contractors' filings, is set forth in the following table:

Renegotiable Sales Reviewed in Fiscal 1964, by Contract Type

	[In millions of dollars]							
	Total		Cost plus fixed fee		Fixed price		Other	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Prime contracts----	\$29,230	74.4	\$11,911	40.7	\$9,041	30.9	\$8,278	28.3
Subcontracts----	10,021	25.5	2,218	22.1	7,056	70.4	748	7.5
Management fees, etc.--	31	0.1	6	19.9	13	40.2	12	39.8
Total--	39,283	100.0	14,135	36.0	16,109	41.0	9,038	23.0

NOTE: Details do not add to totals because of rounding.

It will be noted that cost-plus-a-fixed-fee (CPFF) sales represented 36 percent of total renegotiable sales while "other" sales, which include incentive, price redetermination, and time and material contracts, represented 23 percent of the total. Thus, in filings reviewed in fiscal

1964, CPFF sales still constituted an important part of renegotiable business. This is due to the fact that such sales, in the main, related to CPFF contracts entered into prior to the decision of procurement authorities to reduce the use of such contracts.

Renegotiable business, as a whole, is composed of industrial, construction, service, and other activities connected with the national defense and space programs, often undertaken on contract terms which differ from terms used in commercial business, and under different circumstances. These activities are carried on by a variety of companies that are either wholly, partially, or only nominally in the defense or space fields. Their commercial operations may or may not be comparable with their renegotiable business. Moreover, the statutory floor and various exemptions in the Act annually exclude several billions of dollars of prime and subcontract sales from renegotiation. The foregoing factors, together with the great diversity of profit experience among contractors—ranging from losses to excessive profits—limit the validity of any generalizations about the profitability of defense business or of the \$39.3 billion of renegotiable sales reviewed in fiscal 1964.

Of the 3,990 nonagent contractors, whose filings were reviewed in fiscal 1964, 2,836, with renegotiable sales of \$34.1 billion, showed a profit of \$1.5 billion, and 1,154 with renegotiable sales of \$5.2 billion, a loss of \$359 million. Details are given in the table below:

TABLE I.—Sales and Profits of Companies Reporting Net Renegotiable Profits

[In millions of dollars]

	Renegotiable sales		Renegotiable profits	
	Amount	Percent of total	Amount	Percent of total
Cost-plus-fixed-fee.....	\$13,254	38.9	\$430	28.8
Fixed price.....	12,190	35.8	658	44.1
Other.....	8,629	25.3	404	27.1
Total.....	34,073	100.0	1,492	100.0

TABLE II.—Sales and Profits of Companies Reporting Net Renegotiation Losses

[In millions of dollars]

	Renegotiable sales		Renegotiation losses	
	Amount	Percent of total	Amount	Percent of total
Cost-plus-fixed-fee.....	\$881	16.9	\$15	4.1
Fixed price.....	3,919	75.2	316	88.0
Other.....	410	7.9	28	7.9
Total.....	5,210	100.0	359	100.0

It should be noted that profit and loss figures in the above tables are net figures, reflecting the presence of both profitable and loss contracts in individual cases. Such figures are based on cost allowances required for renegotiation purposes, which differ in significant respects from costs allowable for procurement purposes.

VI. Refund Determinations

In fiscal 1964 the Board made 56 determinations of excessive profits totaling \$24,160,028; and, as of June 30, 1964, the Board had also made, but had not yet incorporated in agreements or orders, additional refund determinations in the amount of \$6,462,805. From its inception through June 30, 1964, the Board made 3,664 determinations of excessive profits totaling \$895,795,058.

Also in fiscal 1964, contractors reported to the Board voluntary refunds and price reductions in the amount of \$41,097,044. This brought the total of such refunds and price reductions reported since the inception of the Board to \$1,230,151,174. (These voluntary refunds and price reductions are to be distinguished from price reductions made under the terms of price-redeterminable contracts.)

The determinations of excessive profits in the amount of \$895,795,058 are after State income tax adjustments but before the deduction of credits for Federal income and excess profits taxes. As of June 30, 1964, total net recoveries by the Government after such tax adjustments and credits amounted to \$339,259,230. Of this amount, the sum of \$12,279,362 resulted from determinations made during fiscal 1964. Net recoveries by the Government arising from determinations of excessive profits are covered into the miscellaneous receipts account of the U.S. Treasury. They do not revert to departmental funds.

Determinations of excessive profits, broken down by the Government fiscal years in which they were made, are as follows:

Fiscal year	Total
1953.....	\$19,970,771
1954.....	119,463,169
1955.....	167,256,288
1956.....	152,649,327
1957.....	150,991,300
1958.....	112,724,199
1959.....	60,757,877
1960.....	52,708,003
1961.....	17,200,093
1962.....	7,844,467
1963.....	10,069,536
1964.....	24,160,028
Total.....	895,795,058

NOTE: The above total includes refund determinations of \$33,185,470 made pursuant to the 1943 and 1948 acts.

The annual record of determinations for the period covered in the foregoing table was influenced by several factors. As late as 1958, determinations made by the Board reflected the high profits attributable to the emergency procurement conditions of the Korean conflict. In the early part of the period, cost-plus-a-fixed-fee contracts (which generally carry lower profits than other types of contracts) were used on a relatively small scale. Subsequently, however, with the increase in research and development activity, the use of such contracts increased. As pointed out elsewhere in this report, out of a total of \$39.3 billion renegotiable business reviewed by the Board in 1964, cost-plus-a-fixed-fee contracts accounted for \$14.1 billion, or 36 percent of the total. Another factor has been the curtailment of the Board's jurisdiction through increases in the statutory floor and the enactment of various exemptions. Still another factor was the effect of recessionary conditions prevailing during some of the years in the above table.

Of the 56 determinations of excessive profits made by the Board during fiscal 1964, 43 resulted in bilateral agreements between the Board and the contractors involved; 13 resulted in the issuance of unilateral orders. As the table below indicates, the Board made 3,664 determinations of excessive profits through June 30, 1964, and 3,305, or 90.2 percent of such determinations, were agreed to by contractors. These agreements accounted for \$663.3 million, or 74 percent, of the total amount of excessive profits determined. Details are as follows:

Refund Determinations: Agreements and Unilateral Orders:

TABLE I.—*Number of Determinations*

	Total	By agree- ment	Percent of total	By order	Percent of total
Through June 30, 1963.....	3, 608	3, 262	90. 4	346	9. 6
Fiscal year 1964.....	56	43	76. 8	13	23. 2
Total.....	3, 664	3, 305	90. 2	359	9. 8

TABLE II.—*Amount of Determinations*

[In millions of dollars]

	Total	By agree- ment	Percent of total	By order	Percent of total
Through June 30, 1963.....	\$871. 63	\$656. 41	75. 3	\$215. 22	24. 7
Fiscal year 1964.....	24. 16	6. 86	28. 4	17. 30	71. 6
Total.....	895. 79	663. 27	74. 0	232. 52	26. 0

VII. Unilateral Orders; Appeals

When a contractor does not agree with a determination of excessive profits, the Board issues a unilateral order directing the contractor to refund to the Government the amount of excessive profits involved.

As shown in the preceding section, 13 of the 56 determinations of excessive profits made by the Board during fiscal 1964 resulted in unilateral orders. Under the Act, contractors have a right to petition the Tax Court of the United States for a redetermination. Five of the 13 unilateral orders issued by the Board during the fiscal year were appealed to the Court and, as of June 30, 1964, the time for appealing one order had not expired. In addition, five unilateral orders issued by the Board during fiscal 1963 were also taken to the Tax Court during the fiscal year.

From the inception of the Board through June 30, 1964, 133 of 359 unilateral orders issued by the Board were appealed to the Tax Court. Details are set forth in the following table:

Refund Determinations Taken to the Tax Court as of June 30, 1964

<i>Fiscal year of Board determination</i>	<i>Number of determinations</i>	<i>Amount of determinations</i>
1953.....	0	0
1954.....	7	\$310, 119
1955.....	12	5, 610, 285
1956.....	16	12, 678, 321
1957.....	25	36, 693, 939
1958.....	17	31, 506, 588
1959.....	11	18, 743, 297
1960.....	19	27, 252, 429
1961.....	10	8, 497, 330
1962.....	3	344, 172
1963.....	8	5, 372, 151
1964.....	5	8, 979, 225
Total.....	133	155, 987, 856

As the table below indicates, as of June 30, 1964, the Court had disposed of 72 cases, leaving 61 pending as of that date.

Renegotiation Cases in the Tax Court

	<i>Total filed</i>	<i>Dis- missed</i>	<i>Closed by stipula- tion</i>	<i>Closed by redeter- mination</i>	<i>Pending</i>
Through June 30, 1963.....	123	29	16	18	60
Fiscal year 1964.....	10	3	3	3	1
Total as of June 30, 1964..	133	32	19	21	61

The aggregate amount of refund determinations involved in the 61 pending cases is \$98,143,656. Of this amount, \$77,867,182, or 79.3

percent of the total, involve petitions filed by major airframe manufacturers.

The 72 cases concluded in the Tax Court as of June 30, 1964 involved Board determinations of excessive profits in the amount of \$66 million. The Court upheld the Board's determination in 43 of the 72 cases reviewed; in 4 cases the determinations were increased and in 25 they were decreased. Details are set forth in the following table:

Tax Court Action on Board Determinations

Court action ending in—	Number of Determinations				Amount of Board determinations	Amount of Court redeterminations
	Total	Upheld	Modified upward	Modified downward		
Dismissal.....	32	32	—	—	\$17,047,525	\$17,047,525
Stipulation.....	19	2	2	15	16,622,427	13,271,310
Redetermination.....	21	9	2	10	32,355,000	31,011,000
Total.....	72	43	4	25	1 66,024,952	1 61,329,835

1 Before State tax credits.

Section 108A of the Act, to a limited extent, authorizes appeals of renegotiation decisions to appellate courts. During the fiscal year ended June 30, 1964, one case was disposed of by the Court of Appeals for the Ninth Circuit and the Supreme Court. As of June 30, 1964, there were no cases pending in the courts of appeals or the Supreme Court.

VIII. Exemption of Commercial Articles and Services

Section 106(e) of the Act, enacted in August 1956, amended the previous provisions governing the mandatory exemption of standard commercial articles and services and substituted new provisions for contractors' fiscal years ending after June 30, 1956. The salient changes brought about by this amendment were indicated in the Annual Report for fiscal 1957. The new exemption was made self-executing with respect to articles meeting certain conditions while, in case of other articles, it was made available only upon application to the Board.

In fiscal 1964, as in preceding years, an unknown number of contractors who self-applied the exemption did not inform the Board. The Board has no way of knowing or estimating how many millions of dollars of sales were thus exempted. Contractors who did report, indicated self-application of exemptions in the amount of \$602.6 million.

In fiscal 1964, there were 230 applications to the Board for commercial exemption under the non-self-executory provisions of the Act. Data respecting Board action on these applications are set forth in the following table:

Applications for Commercial Exemption

	[Sales in thousands of dollars]			
	Number of applications	Amount of exemptions applied for	Amount of exemptions approved	Amount of exemptions denied
Through June 30, 1963.....	1,077	\$2,613,494	\$2,384,734	\$228,760
Fiscal year 1964.....	230	566,445	556,589	9,856
Total.....	1,307	3,179,939	2,941,323	238,616

IX. Expenses and Personnel

During fiscal 1964 the Board continued its efforts to improve the efficiency of its operations and strictly observed the President's directives on control of employment. As a result, the Board was able to reduce year-end employment to 206 as compared with 223 at the end of fiscal 1963.

Renegotiation Board Expenses Through June 30, 1964

Fiscal year	Total	Salaries	All other
1952.....	\$1,606,259	\$1,176,003	\$430,256
1953.....	5,093,308	4,443,662	649,646
1954.....	5,116,806	4,823,730	293,076
1955.....	4,388,924	4,159,975	228,949
1956.....	3,860,987	3,632,357	228,630
1957.....	3,514,032	3,320,272	193,760
1958.....	3,028,037	2,729,362	298,675
1959.....	3,003,657	2,702,100	301,557
1960.....	2,814,200	2,511,119	303,081
1961.....	2,911,684	2,600,646	311,038
1962.....	2,579,513	2,246,385	333,128
1963.....	2,325,995	2,024,826	301,169
1964.....	2,515,939	2,233,055	282,884
Total.....	42,759,341	38,603,492	4,155,849

The number of personnel on duty at Headquarters and at the regional boards on June 30 of each fiscal year from 1952 to 1964 is set forth in the table below:

<i>Fiscal year</i>	<i>Total</i>	<i>Headquarters</i>	<i>Regional Boards</i>
1952.....	558	169	389
1953.....	742	178	564
1954.....	639	174	465
1955.....	540	193	347
1956.....	466	181	285
1957.....	359	155	204
1958.....	326	142	184
1959.....	301	136	165
1960.....	284	130	154
1961.....	271	123	148
1962.....	193	114	79
1963.....	223	131	92
1964.....	206	121	85

The

RENEGOTIATION BOARD

Tenth Annual Report

1965



For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C., 20402 - Price 15 cents

Letter of Transmittal

The Renegotiation Board
Washington, D.C.
December 31, 1965

To the Congress of the United States:

I have the honor to transmit to you the Tenth Annual Report of The Renegotiation Board, covering the fiscal year July 1, 1964 through June 30, 1965, as required by Section 114 of the Renegotiation Act of 1951, as amended.

LAWRENCE E. HARTWIG,
Chairman.

THE PRESIDENT OF THE SENATE
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

The Renegotiation Board

Members of the Board:

LAWRENCE E. HARTWIG, *Chairman*¹

HERSCHEL C. LOVELESS²

THOMAS D'ALESSANDRO, JR.³

WILLIAM M. BURKHALTER⁴

JACK BEATY⁵

Headquarters Office
1910 K Street NW.
Washington, D.C. 20446

¹ Appointed October 3, 1951, designated Chairman April 13, 1961.

² Appointed March 17, 1961.

³ Appointed March 28, 1961.

⁴ Appointed April 10, 1962.

⁵ Appointed February 28, 1963.

Contents

	<i>Page</i>
I. THE PURPOSE AND PROCESS OF RENEGOTIATION.....	1
II. CHANGES IN REGULATIONS DURING THE FISCAL YEAR.....	5
III. CHANGES IN PRACTICES AND OPERATING PROCEDURES.....	5
IV. FILINGS; SCREENING, PROCESSING, AND COMPLETIONS.....	6
V. RENEGOTIABLE SALES AND PROFITS.....	7
VI. REFUND DETERMINATIONS.....	9
VII. APPEALS.....	10
VIII. EXEMPTION OF COMMERCIAL ARTICLES AND SERVICES.....	12
IX. EXPENSES AND PERSONNEL.....	13

Tenth Annual Report of The Renegotiation Board

For the Fiscal Year Ended June 30, 1965

I. The Purpose and Process of Renegotiation

Profit limitation on defense contracts is a long-established national policy reflected in a succession of congressional enactments. The limitation of profit margins on naval ship procurement dates from 1934 and on aircraft procurement from 1939. Renegotiation, as such, had its origin in the Renegotiation Act of 1942. In the Renegotiation Act of 1943, Congress defined the process more completely and prescribed specific factors to be considered in determining excessive profits. The termination date of the 1943 Act was December 31, 1945. Subsequently Congress enacted the Renegotiation Act of 1948, which had limited application.

The present Renegotiation Board, created by the Renegotiation Act of 1951, has continued the work of the predecessor boards to assure that no excessive profits are realized by prime contractors and subcontractors as a result of the continuing large Federal procurement outlays for defense and space purposes.

The purpose of the Renegotiation Act as defined by Congress—the elimination of excessive profits on Government contracts and related subcontracts—is accomplished both by Board proceedings resulting in refunds of excessive profits and by the voluntary actions of contractors. Determinations of excessive profits during fiscal year 1965 aggregated \$16,146,803, bringing the total since 1951 to \$911,941,861, before adjustment for Federal income and excess profits tax credits. Voluntary refunds and voluntary price reductions, reported by contractors in connection with renegotiation proceedings, amounted to \$16,402,517 in fiscal 1965. Since the creation of the present Board and through June 30, 1965, such reported savings totaled \$1,246,553,691.

A. SCOPE OF RENEGOTIATION

The Act applies only to contracts with Government agencies specifically named in or designated pursuant to the Act,¹ and to related sub-

¹ For fiscal 1965 these agencies were the Departments of Defense, the Army, the Navy, and the Air Force, the Maritime Administration, the Federal Maritime Board, the General Services Administration, the National Aeronautics and Space Administration, the Atomic Energy Commission, and the Federal Aviation Agency.

contracts. By virtue of exemptions granted in or pursuant to the Act, certain contracts even with these agencies are excluded from renegotiation.

Of the mandatory exemptions provided in the Act, the most important are those which exempt contracts and subcontracts for raw materials or agricultural commodities, contracts and subcontracts with common carriers, public utilities and tax-exempt organizations under certain circumstances, competitively bid construction contracts with some exceptions, and prime contracts which the Board determines do not have a direct and immediate connection with the national defense. Contracts and subcontracts for the sale of new durable productive equipment are partially exempt from renegotiation, and contracts and subcontracts for the sale of commercial articles or services are exempt under certain circumstances.

In addition to the mandatory exemptions provided in the Act, the Board itself is authorized to exempt certain other types of contracts or subcontracts from renegotiation. Of the permissive exemptions granted by the Board pursuant to this authority, the most important is the so-called "stock item" exemption. In general, this exemption applies to sales made to replenish stocks customarily maintained by a purchaser, except when the materials are specially purchased for use in performing renegotiable contracts.

For purposes of renegotiation, profits are defined as the excess of the amount received or accrued under renegotiable contracts and subcontracts over the costs paid or incurred with respect thereto and determined to be allocable thereto. All items estimated to be allowed as deductions and exclusions under Chapter I of the Internal Revenue Code (excluding taxes measured by income) must, to the extent allocable to renegotiable business, be allowed as items of costs. Here renegotiation differs from procurement; procurement regulations are more restrictive with respect to costs that may be allowed for contracting purposes.

What part, if any, of the profits thus defined may be excessive, is determined on the basis of the statutory definition of excessive profits contained in Section 103(e) of the Act:

Excessive profits.—The term "excessive profits" means the portion of the profits derived from contracts with the Departments and subcontracts which is determined in accordance with this title to be excessive. In determining excessive profits, favorable recognition must be given to the efficiency of the contractor or subcontractor, with particular regard to attainment of quantity and quality production, reduction of costs, and economy in the use of materials, facilities, and manpower; and in addition, there shall be taken into consideration the following factors:

- (1) Reasonableness of costs and profits, with particular regard to volume of production, normal earnings, and comparison of war and peacetime products;
- (2) The net worth, with particular regard to the amount and source of public and private capital employed;

- (3) Extent of risk assumed, including the risk incident to reasonable pricing policies;

- (4) Nature and extent of contribution to the defense effort, including inventive and developmental contribution and cooperation with the Government and other contractors in supplying technical assistance;

- (5) Character of business, including source and nature of materials, complexity of manufacturing technique, character and extent of subcontracting, and rate of turn-over;

- (6) Such other factors the consideration of which the public interest and fair and equitable dealing may require, which factors shall be published in the regulations of the Board from time to time as adopted.

It is apparent from the statutory language that no formulae or pre-established rates can be used to determine whether profits are, or are not, excessive in any given case. Rather, the determination in each instance must reflect the judgment of the Board on the application of each of the statutory factors enumerated above to the facts of the specific case.

In eliminating excessive profits, credit is allowed for Federal income taxes, and adjustment is made for State income taxes attributable to the non-excessive renegotiable profits.

Under the statute, renegotiation is conducted not with respect to individual contracts, but with respect to the receipts or accruals under all renegotiable contracts and subcontracts of a contractor in the contractor's fiscal year.

The contracts may vary in form from cost-plus-a-fixed-fee to firm fixed-price; they may be prime contracts or subcontracts; and they may relate to a variety of products and services. The contracts may be performed over differing periods: some may be wholly performed within a contractor's particular fiscal year while the performance of others may extend beyond such fiscal year. Accordingly, overall renegotiable profits during any fiscal year of a given contractor will often reflect the performance of different contracts in different stages of completion. Furthermore, such overall profits may result from an offset of losses or low profits on some contracts against high or even excessive profits on others. Thus fiscal-year renegotiation, which deals with aggregate profits, is entirely different from price adjustment or redetermination of individual contracts pursuant to contract provisions.

B. ORGANIZATION OF THE RENEGOTIATION BOARD

The Renegotiation Act of 1951 created, for the first time, an independent agency, The Renegotiation Board, to administer renegotiation. The Act was made effective as of January 1, 1951, and contained provisions for the completion of 1943 and 1948 Act proceedings by the Board.

Under authority granted by the Act, the Board created regional boards to conduct renegotiation proceedings with contractors. Since

January 1962, when a consolidation of regional boards was effected, all field activities of the Board have been conducted by two boards, the Eastern Regional Renegotiation Board in Washington, D.C., serving the eastern part of the United States, and the Western Regional Renegotiation Board in Los Angeles, Calif., serving the western part of the United States.

As of June 30, 1965, the Board's headquarters staff consisted of the following:

- Office of the Secretary.
- Office of Administration.
- Office of the Economic Advisor.
- Office of Assignments.
- Office of Accounting.
- Office of Review.
- Office of the General Counsel.

At each of the regional boards, the staff consisted of the Divisions of Administration, Accounting, Procurement Affairs, and Renegotiating, and the Office of the Regional Counsel.

C. OUTLINE OF THE RENEGOTIATION PROCESS

Originally the Act required every contractor having renegotiable business to file a report with the Board, regardless of the amount involved. At the present time, contractors whose renegotiable sales, on a fiscal year basis, are below the \$1 million statutory "floor" may file or not, as they choose.

All reports of contractors are examined at the headquarters of the Board in Washington, D.C. Filings which show aggregate renegotiable sales below the statutory floor are reviewed to determine their acceptability. In the case of above-the-floor filings, if the profits are obviously not excessive, notices of clearance without assignment are usually issued. All cases not cleared in this manner are assigned to the regional boards for renegotiation, usually on a geographic basis. In each assigned case, the regional board formally commences renegotiation, obtains such additional information as it may need, and then determines whether the contractor has realized excessive profits, and if so, in what amount.

The Board has delegated to the regional boards final authority to issue clearances or make refund agreements in cases involving aggregate renegotiable profits of \$800,000 or less. If, in a refund case, the contractor refuses to accept the determination, i.e., declines to enter into an agreement, the regional board issues an order directing the payment of the refund. From such an order, the contractor has a right of appeal to the Board.

In cases involving more than \$800,000 renegotiable profits, the regional boards do not have final authority, and their recommendations

must be approved by the Board before refund agreements may be executed or clearances issued. If a regional board recommendation is not acceptable to either the Board or the contractor, the case is reassigned from the regional board to the Board for further processing and completion.

Contractors may obtain a redetermination of any final order of the Board by filing a petition in the Tax Court of the United States.

II. Changes in Regulations During the Fiscal Year

Following are the more important changes in the regulations in the fiscal year ended June 30, 1965:

1. The regulations were amended to reflect the provisions of Public Law 88-339, approved June 30, 1964, by which contracts of the Federal Aviation Agency, and related subcontracts, were made subject to the Act to the extent of amounts received or accrued by a contractor or subcontractor after June 30, 1964.

2. The regulations were amended to provide that a Standard Form of Contractor's Report or a Statement of Non-Applicability for a fiscal year shall not be filed by a contractor who has filed an Application for Commercial Exemption for such fiscal year, until the Board has completed its action on such application.

3. The "stock item" exemption applicable to sales of materials customarily purchased for stock in the normal course of the purchaser's business was further extended by the Board through June 30, 1965. This exemption has been in effect throughout the life of the Act.

4. The regulations were amended to describe the method of computing the renegotiable receipts or accruals of a contractor and any related contractor that controlled or was under control of or under common control with the contractor during only a part of the fiscal year of the contractor. The receipts or accruals of the contractor during its entire fiscal year are to be aggregated with all amounts received or accrued by such related contractor in that part of the fiscal year of the contractor during which the relationship between the contractor and such related contractor existed.

III. Changes in Practices and Operating Procedures

During the year, simplifying and clarifying changes were made in the two forms and related instructions used by contractors in reporting for renegotiation purposes. For the first time, both the revised forms and the instructions were combined into a booklet for ease of handling, addressing, and mailing.

IV. Filings; Screening, Processing, and Completions

A. FILINGS BY CONTRACTORS

Every contractor having renegotiable business in excess of the statutory minimum must file a report with the headquarters of the Board. The number of such above-the-floor filings received by the Board in fiscal 1965 was 3,673. The number of filings received in the preceding fiscal year was 4,007.

Contractors whose renegotiable sales are below the statutory minimum may file reports with the Board, but they are not required to do so. A considerable number of such contractors usually elect to file. The number of such below-the-floor filings received by the Board in fiscal 1965 was 3,478. In the immediately preceding fiscal year the number of below-the-floor filings was 5,765.

B. SCREENING AT HEADQUARTERS

The processing of contractors' filings begins at the headquarters of the Board. In this screening process, each filing which shows renegotiable business above the statutory minimum is examined to determine the acceptability of the contractor's segregation of sales and allocation of costs. The available information is then evaluated to determine whether the filing should be assigned to the field for further processing or whether it should be cleared at headquarters without assignment. In fiscal 1965, 3,691 above-the-floor filings were thus screened. The corresponding figure for fiscal 1964 was 4,383.

When a contractor's report shows a loss or obviously nonexcessive profits, action on the filing is usually completed at headquarters by the issuance of a notice of clearance without assignment. Of the 3,691 above-the-floor filings screened during fiscal 1965, 3,336, or 90.4 percent, were thus cleared at headquarters without assignment to a regional board. In fiscal 1964, 3,881 or 88.4 percent of the 4,383 above-the-floor filings were disposed of in a similar manner.

Filings not disposed of as a result of the headquarters screening process are assigned to the regional boards for renegotiation. In fiscal 1965, 355 filings were thus assigned.

The average time required for screening a filing was 36 days in fiscal 1965, as compared with 59 days in fiscal 1964.

C. PROCESSING OF ASSIGNMENTS

Cases assigned to the regional boards generally involve substantial questions which require time-consuming examination and analysis. In fiscal 1965, the regional boards completed the processing of 457 assignments. Since there were 355 new assignments in the course of the fiscal year, the number of pending assignments decreased from 524 at June 30, 1964 to 422 as of June 30, 1965.

Of the 457 assignments processed by the regional boards in fiscal 1965, 222 were completed by refund agreement, clearance, or decision not to proceed, and 235 were transferred to the headquarters of the Board for further processing.

Headquarters completed the processing of 259 assignments during the fiscal year.

D. COMPLETIONS

As of June 30, 1964, the total number of filings and assignments pending at headquarters and the regional boards was 916. During fiscal 1965, the Board received 3,673 new filings and completed the processing of 3,817 filings and assignments, leaving an ending inventory of 772. Thus, the inventory of pending cases was reduced by 15.7 percent during the fiscal year.

As pointed out earlier, the average time for the processing of filings in the screening process was 36 days in fiscal 1965. The average time for the processing of assignments through the regional boards and headquarters was 16 months. Cases assigned to the regional boards involve more extensive examination and analysis than those screened out at headquarters. For this reason the average time for the completion of such cases is much greater.

V. Renegotiable Sales and Profits

In fiscal 1965, 3,315 above-the-floor filings of contractors, other than brokers or manufacturers' agents, were screened. These filings represented \$34.8 billion of renegotiable sales. The comparable figure for fiscal 1964 was \$39.3 billion.

The composition of renegotiable sales, as disclosed in contractors' filings, is set forth in the following table:

Renegotiable Sales Reviewed in Fiscal 1965, by Contract Type
(In millions of dollars)

	Total		Cost plus fixed fee		Fixed price		Other	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Prime contracts	\$26,311	75.6	\$8,635	32.8	\$8,679	33.0	\$8,996	34.2
Subcontracts ..	8,462	24.3	1,491	17.6	6,203	73.3	767	9.1
Management fees, etc.	25	0.1	4	16.0	10	40.0	11	44.0
Total	34,798	100.0	10,130	29.1	14,893	42.8	9,774	28.1

NOTE: Details do not add to totals because of rounding.

The above table, when compared with the corresponding table for fiscal 1964, shows the early effects of a changed procurement policy. The percentage of CPFF sales dropped from 36.0 percent in fiscal

1964 to 29.1 percent in fiscal 1965, with corresponding increases in the percentages of fixed-price and "other" sales, the latter including sales under incentive, price redetermination, and time and material contracts.

Renegotiable business, as a whole, is composed of manufacturing, construction, service, and other activities connected with the national defense and space programs, often undertaken on contract terms which differ from terms used in commercial business, and under different circumstances. These activities are carried on by a variety of companies that are either wholly, partially, or only nominally in the defense or space fields. The commercial operations of such companies may or may not be comparable to their renegotiable business. Moreover, the statutory floor and various exemptions in the Act annually exclude several billions of dollars of defense sales from renegotiation. These factors, together with the great diversity of profit experience among contractors—ranging from losses to excessive profits—limit the validity of generalizations about the profitability of defense business as a whole, or of the \$34.8 billion of renegotiable sales reviewed in fiscal 1965.

Of the 3,315 nonagent contractors whose filings were reviewed in fiscal 1965, 2,291, with renegotiable sales of \$30.0 billion, showed a profit of \$1.3 billion; and 1,024, with renegotiable sales of \$4.8 billion, showed a loss of \$291 million. Details are given in the tables below:

TABLE I.—Sales and Profits of Companies Reporting Net Renegotiable Profits
[In millions of dollars]

	Renegotiable sales		Renegotiable profits	
	Amount	Percent of total	Amount	Percent of total
Cost-plus-fixed-fee.....	\$9, 373	31. 3	\$296	22. 2
Fixed price.....	11, 322	37. 8	559	41. 9
Other.....	9, 258	30. 9	478	35. 9
Total.....	29, 953	100. 0	1, 333	100. 0

TABLE II.—Sales and Profits of Companies Reporting Net Renegotiation Losses
[In millions of dollars]

	Renegotiable sales		Renegotiation losses	
	Amount	Percent of total	Amount	Percent of total
Cost-plus-fixed-fee.....	\$758	15. 6	\$12	4. 1
Fixed price.....	3, 571	73. 7	254	87. 3
Other.....	516	10. 7	25	8. 6
Total.....	4, 845	100. 0	291	100. 0

It should be noted that profit and loss figures in the above tables are net figures, reflecting the presence of both profitable and loss contracts in individual cases. Such figures are based on cost allowances

required for renegotiation purposes, which differ in significant respects from costs allowable for procurement purposes.

VI. Refund Determinations

In fiscal 1965 the Board made 52 determinations of excessive profits totaling \$16,146,803; and, as of June 30, 1965, the Board had also made, but had not yet incorporated in agreements or orders, additional refund determinations in the amount of \$3,369,697. From its inception through June 30, 1965, the Board made 3,716 determinations of excessive profits totaling \$911,941,861.

Also in fiscal 1965, contractors reported to the Board voluntary refunds and price reductions in the amount of \$16,402,517. This brought the total of such refunds and price reductions reported since the inception of the Board to \$1,246,553,691. These refunds and price reductions are wholly voluntary, and are to be distinguished from price reductions made under the terms of price-redeterminable contracts.

The determinations of excessive profits in the amount of \$911,941,861 are after State income tax adjustments but before the deduction of credits for Federal income and excess profits taxes. As of June 30, 1965, total net recoveries by the Government after such tax adjustments and credits amounted to \$348,083,095. Of this amount, the sum of \$8,823,865 resulted from determinations made during fiscal 1965. Net recoveries by the Government arising from determinations of excessive profits are covered into the Treasury as miscellaneous receipts. They do not revert to departmental funds.

Determinations of excessive profits, broken down by the Government fiscal years in which they were made, are as follows:

Fiscal year	Total
1953.....	\$19, 970, 771
1954.....	119, 463, 169
1955.....	167, 256, 288
1956.....	152, 649, 327
1957.....	150, 991, 300
1958.....	112, 724, 199
1959.....	60, 757, 877
1960.....	52, 708, 003
1961.....	17, 200, 093
1962.....	7, 844, 467
1963.....	10, 069, 536
1964.....	24, 160, 028
1965.....	16, 146, 803
Total.....	911, 941, 861

NOTE: The above total includes refund determinations of \$33,185,470 made pursuant to the 1943 and 1948 acts.

The annual record of determinations for the period covered in the foregoing table was influenced by several factors. As late as 1958,

determinations made by the Board reflected the high profits attributable to the emergency procurement conditions of the Korean conflict. In the early part of the period, cost-plus-a-fixed-fee contracts (which generally carry lower profits than other types of contracts) were used on a relatively small scale. Subsequently, however, the use of such contracts increased. As pointed out elsewhere in this report, out of a total of \$34.8 billion renegotiable business reviewed by the Board in 1965, cost-plus-a-fixed-fee prime contracts and subcontracts accounted for \$10.1 billion, or 29.1 percent of the total. Another factor has been the curtailment of the Board's jurisdiction through increases in the statutory floor and the enactment of various exemptions. Still another factor was the effect of recessionary conditions prevailing during some of the years in the above table.

Of the 52 determinations of excessive profits made by the Board during fiscal 1965, 41 resulted in agreements between the Board and the contractors involved; 11 resulted in the issuance of unilateral orders. As the table below indicates, the Board made 3,716 determinations of excessive profits through June 30, 1965, and 3,346, or 90.0 percent of such determinations, were agreed to by contractors. These agreements accounted for \$674 million, or 73.9 percent, of the total amount of excessive profits determined. Details are as follows:

Refund Determinations: Agreements and Unilateral Orders:

TABLE I.—Number of Determinations

	Total	By agreement	Percent of total	By order	Percent of total
Through June 30, 1964.....	3,664	3,305	90.2	359	9.8
Fiscal year 1965.....	52	41	78.8	11	21.2
Total.....	3,716	3,346	90.0	370	10.0

TABLE II.—Amount of Determinations

[In millions of dollars]

	Total	By agreement	Percent of total	By order	Percent of total
Through June 30, 1964.....	\$895.79	\$663.27	74.0	\$232.52	26.0
Fiscal year 1965.....	16.15	10.69	66.2	5.45	33.8
Total.....	911.94	673.97	73.9	237.97	26.1

NOTE: Details do not add to totals because of rounding.

VII. Appeals

When a contractor does not agree with a determination of excessive profits, the Board issues a unilateral order directing the contractor to refund to the Government the amount of excessive profits involved.

As shown in the preceding section, 11 of the 52 determinations of excessive profits made by the Board during fiscal 1965 resulted in unilateral orders. Under the Act, contractors have a right to petition the Tax Court of the United States for a redetermination. Three of the 11 unilateral orders issued by the Board during the fiscal year were appealed to the Court and, as of June 30, 1965, the time for appealing two orders had not expired.

From the inception of the Board through June 30, 1965, 136 of the 370 unilateral orders issued by the Board were appealed to the Tax Court. Details are set forth in the following table:

Refund Determinations Taken to the Tax Court as of June 30, 1965

Fiscal year of Board determination	Number of determinations	Amount of determinations
1953.....	0	0
1954.....	7	\$310,119
1955.....	12	5,610,285
1956.....	16	12,678,321
1957.....	25	36,693,939
1958.....	17	31,506,588
1959.....	11	18,743,297
1960.....	19	27,252,429
1961.....	10	8,497,330
1962.....	3	344,172
1963.....	8	5,372,151
1964.....	5	8,979,225
1965.....	3	1,946,447
Total.....	136	157,934,303

During fiscal 1965, the Tax Court disposed of 19 cases. As the table below indicates, as of June 30, 1965, the Court had disposed of a total of 91 cases, leaving 45 pending on that date.

Renegotiation Cases in the Tax Court

	Total filed	Dismissed	Closed by stipulation	Closed by redetermination	Pending
Through June 30, 1964.....	133	32	19	21	61
Fiscal year 1965.....	3	7	10	2	(16)
Total as of June 30, 1965..	136	39	29	23	45

The aggregate amount of refund determinations involved in the 45 pending cases is \$40,890,663.

The 91 cases concluded in the Tax Court as of June 30, 1965 involved Board determinations of excessive profits in the amount of \$134 million. The Court upheld the Board's determination in 51 of the 91 cases reviewed; in 5 cases the determinations were increased and in 35 they were decreased. Details are set forth in the following table:

Tax Court Action on Board Determinations

Court action ending in—	Number of Determinations				Amount of Board determinations	Amount of Court redeterminations
	Total	Upheld	Modified upward	Modified downward		
Dismissal.....	39	39	----	----	\$35, 072, 525	\$35, 072, 525
Stipulation.....	29	2	3	24	66, 818, 411	58, 580, 363
Redetermination....	23	10	2	11	32, 505, 000	31, 136, 000
Total.....	91	51	5	35	134, 395, 936	124, 788, 888

¹ Before State tax credits, except in one case.

Section 108A of the Act, to a limited extent, authorizes appeals of renegotiation decisions of the Tax Court to appellate courts. As of June 30, 1965, there was one case pending in the Court of Appeals for the Fourth Circuit.

VIII. Exemption of Commercial Articles and Services

Section 106(e) of the Act, enacted in August 1956, amended the previous provisions governing the mandatory exemption of standard commercial articles and services, and substituted new provisions for contractors' fiscal years ending after June 30, 1956. The new exemption was made self-executing with respect to articles meeting certain conditions while, in case of other articles, it was made available only upon application to the Board.

In fiscal 1965, contractors who filed reports with the Board indicated self-application of the exemption in the amount of \$561.2 million. The Board has no way of knowing or estimating how many millions of dollars of sales were treated as exempt in the fiscal year by contractors who did not file reports with the Board because their renegotiable sales were below the floor.

In fiscal 1965, there were 244 applications to the Board for commercial exemption. Data respecting Board action on these applications are set forth in the following table:

Application for Commercial Exemption

[Sales in thousands of dollars]				
	Number of applications	Amount of exemptions applied for	Amount of exemptions approved	Amount of exemptions denied
Through June 30, 1964.....	1, 307	\$3, 179, 939	\$2, 941, 323	\$238, 616
Fiscal year 1965.....	244	485, 958	457, 922	28, 036
Total.....	1, 551	3, 665, 897	3, 399, 245	266, 652

IX. Expenses and Personnel

During the fiscal year the Board continued its efforts to improve the efficiency of its operations and strictly observed the President's directives on control of employment. As a result, for the second consecutive year, the Board was able to reduce personnel. At the end of fiscal 1965 employment was 184 as compared with 206 at the end of the preceding year.

Renegotiation Board Expenses Through June 30, 1965

Fiscal year	Total	Salaries	All other
1952.....	\$1, 606, 259	\$1, 176, 003	\$430, 256
1953.....	5, 093, 308	4, 443, 662	649, 646
1954.....	5, 116, 806	4, 823, 730	293, 076
1955.....	4, 388, 924	4, 159, 975	228, 949
1956.....	3, 860, 987	3, 632, 357	228, 630
1957.....	3, 514, 032	3, 320, 272	193, 760
1958.....	3, 028, 037	2, 729, 362	298, 675
1959.....	3, 003, 657	2, 702, 100	301, 557
1960.....	2, 814, 200	2, 511, 119	303, 081
1961.....	2, 911, 684	2, 600, 646	311, 038
1962.....	2, 579, 513	2, 246, 385	333, 128
1963.....	2, 325, 462	2, 024, 826	300, 636
1964.....	2, 511, 183	2, 229, 818	281, 365
1965.....	2, 581, 820	2, 286, 223	295, 597
Total.....	45, 335, 872	40, 886, 478	4, 449, 394

The number of personnel on duty at headquarters and at the regional boards on June 30 of each fiscal year from 1952 to 1965 is set forth in the table below:

Fiscal year	Total	Headquarters	Regional Boards
1952.....	558	169	389
1953.....	742	178	564
1954.....	639	174	465
1955.....	540	193	347
1956.....	466	181	285
1957.....	359	155	204
1958.....	326	142	184
1959.....	301	136	165
1960.....	284	130	154
1961.....	271	123	148
1962.....	193	114	79
1963.....	223	131	92
1964.....	206	121	85
1965.....	184	108	76

The

RENEGOTIATION BOARD

Eleventh Annual Report

1966



For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20540 - Price 15 cents

Letter of Transmittal

The Renegotiation Board
Washington, D.C.
December 31, 1966

To the Congress of the United States:

I have the honor to transmit to you the Eleventh Annual Report of The Renegotiation Board, covering the fiscal year July 1, 1965 through June 30, 1966, as required by Section 114 of the Renegotiation Act of 1951, as amended.

LAWRENCE E. HARTWIG,
Chairman.

THE PRESIDENT OF THE SENATE

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

The Renegotiation Board

Members of the Board:

LAWRENCE E. HARTWIG, *Chairman*¹

HERSCHEL C. LOVELESS²

THOMAS D'ALESSANDRO, JR.³

WILLIAM M. BURKHALTER⁴

JACK BEATY⁵

Headquarters Office
1910 K Street NW.
Washington, D.C. 20446

Contents

	Page
I. THE PURPOSE AND PROCESS OF RENEGOTIATION.....	1
II. CHANGES IN REGULATIONS DURING THE FISCAL YEAR....	5
III. CHANGES IN OPERATING PROCEDURES DURING THE FISCAL YEAR.....	6
IV. FILINGS; SCREENING, PROCESSING, AND COMPLETIONS....	6
V. RENEGOTIABLE SALES AND PROFITS.....	7
VI. EXCESSIVE PROFITS DETERMINATIONS.....	9
VII. APPEALS.....	11
VIII. EXEMPTION OF COMMERCIAL ARTICLES AND SERVICES....	13
IX. EXPENSES AND PERSONNEL.....	14

¹ Appointed October 3, 1951, designated Chairman April 13, 1961.

² Appointed March 17, 1961.

³ Appointed March 28, 1961.

⁴ Appointed April 10, 1962.

⁵ Appointed February 28, 1963.

Eleventh Annual Report of The Renegotiation Board

For the Fiscal Year Ended June 30, 1966

I. The Purpose and Process of Renegotiation

Profit limitation on defense contracts is a long-established national policy reflected in a succession of congressional enactments. The limitation of profit margins on naval ship procurement dates from 1934 and on aircraft procurement from 1939. Renegotiation, as such, had its origin in the Renegotiation Act of 1942. In the Renegotiation Act of 1943, Congress defined the process more completely and prescribed specific factors to be considered in determining excessive profits. The termination date of the 1943 Act was December 31, 1945. Subsequently Congress enacted the Renegotiation Act of 1948, which had limited application.

The present Renegotiation Board, created by the Renegotiation Act of 1951, has continued the work of the predecessor boards to assure that no excessive profits are realized by prime contractors and subcontractors as a result of the continuing large Federal procurement outlays for defense and space purposes.

During the fiscal year, Congress recognized the continuing need for renegotiation by extending the Act through June 30, 1968.

The purpose of the Renegotiation Act as defined by Congress—the elimination of excessive profits on Government contracts and related subcontracts—is accomplished both by Board proceedings resulting in refunds of excessive profits and by the voluntary actions of contractors. Determinations of excessive profits made by the Board during fiscal 1966 aggregated \$24,513,962, bringing the total since 1951 to \$936,455,823, before adjustment for Federal income and excess profits tax credits. Voluntary refunds and voluntary price reductions, reported by contractors in connection with renegotiation proceedings, amounted to \$23,248,982 in fiscal 1966. Since the creation of the present Board and through June 30, 1966, such reported savings totaled \$1,269,802,673.

A. SCOPE OF RENEGOTIATION

The Act applies only to contracts with Government agencies specifically named in or designated pursuant to the Act,¹ and to related subcontracts. By virtue of exemptions granted in or pursuant to the Act, certain contracts even with these agencies are excluded from renegotiation.

Among the mandatory exemptions provided in the Act are those which exempt contracts and subcontracts for raw materials or agricultural commodities, contracts and subcontracts with common carriers, public utilities and tax-exempt organizations under certain circumstances, competitively bid construction contracts with some exceptions, and prime contracts which the Board determines do not have a direct and immediate connection with the national defense. Contracts and subcontracts for the sale of new durable productive equipment are partially exempt from renegotiation, and contracts and subcontracts for the sale of commercial articles or services are exempt under certain circumstances.

In addition to the mandatory exemptions provided in the Act, the Board itself is authorized to exempt certain other types of contracts or subcontracts from renegotiation. Among the permissive exemptions granted by the Board pursuant to this authority is the so-called "stock item" exemption. In general, this exemption applies to sales made to replenish stocks customarily maintained by a purchaser, except when the materials are specially purchased for use in performing renegotiable contracts.

For purposes of renegotiation, profits are defined as the excess of the amount received or accrued under renegotiable contracts and subcontracts over the costs paid or incurred with respect thereto and determined to be allocable thereto. All items estimated to be allowed as deductions and exclusions under Chapter I of the Internal Revenue Code (excluding taxes measured by income) must, to the extent allocable to renegotiable business, be allowed as items of costs. Here renegotiation differs from procurement; procurement regulations are more restrictive with respect to costs that may be allowed for contracting purposes.

What part, if any, of the profits thus defined may be excessive, is determined on the basis of the statutory definition of excessive profits contained in Section 103(e) of the Act:

Excessive profits.—The term "excessive profits" means the portion of the profits derived from contracts with the Departments and subcontracts which is determined in accordance with this title to be excessive. In determining

¹For fiscal 1966 these agencies were the Department of Defense, the Army, the Navy, and the Air Force, the Maritime Administration, the Federal Maritime Board, the General Services Administration, the National Aeronautics and Space Administration, the Atomic Energy Commission, and the Federal Aviation Agency.

excessive profits, favorable recognition must be given to the efficiency of the contractor or subcontractor, with particular regard to attainment of quantity and quality production, reduction of costs, and economy in the use of materials, facilities, and manpower; and in addition, there shall be taken into consideration the following factors:

- (1) Reasonableness of costs and profits, with particular regard to volume of production, normal earnings, and comparison of war and peacetime products;
- (2) The net worth, with particular regard to the amount and source of public and private capital employed;
- (3) Extent of risk assumed, including the risk incident to reasonable pricing policies;
- (4) Nature and extent of contribution to the defense effort, including inventive and developmental contribution and cooperation with the Government and other contractors in supplying technical assistance;
- (5) Character of business, including source and nature of materials, complexity of manufacturing technique, character and extent of subcontracting, and rate of turn-over;
- (6) Such other factors the consideration of which the public interest and fair and equitable dealing may require, which factors shall be published in the regulations of the Board from time to time as adopted.

It is apparent from the statutory language that no formulae or pre-established rates can be used to determine whether profits are, or are not, excessive in any given case. Rather, the determination in each instance must reflect the judgment of the Board on the application of each of the statutory factors enumerated above to the facts of the specific case.

In eliminating excessive profits, credit is allowed for Federal income taxes, and adjustment is made for State income taxes attributable to the non-excessive renegotiable profits.

Under the statute, renegotiation is conducted not with respect to individual contracts, but with respect to the receipts or accruals under all renegotiable contracts and subcontracts of a contractor in the contractor's fiscal year.

The contracts may vary in form from cost-plus-a-fixed-fee to firm fixed-price; they may be prime contracts or subcontracts; and they may relate to a variety of products and services. They may be performed over differing periods: some may be completed within the contractor's particular fiscal year while the performance of others may extend beyond such year. Accordingly, overall renegotiable profits during any fiscal year of a given contractor will often reflect the performance of different contracts in different stages of completion. Furthermore, such overall profits may result from an offset of losses or low profits on some contracts against high or even excessive profits on others. Thus fiscal-year renegotiation, which deals with aggregate profits, is entirely different from price adjustment or redetermination of individual contracts pursuant to contract provisions.

B. ORGANIZATION OF THE RENEGOTIATION BOARD

The Renegotiation Act of 1951 created, for the first time, an independent agency, The Renegotiation Board, to administer renegotiation. The Act was made effective as of January 1, 1951, and contained provisions for the completion of 1943 and 1948 Act proceedings by the Board.

Under authority granted by the Act, the Board created regional boards to conduct renegotiation proceedings with contractors. Since January 1962, when a consolidation of regional boards was effected, all field activities of the Board have been conducted by two boards, the Eastern Regional Renegotiation Board in Washington, D.C., serving the eastern part of the United States, and the Western Regional Renegotiation Board in Los Angeles, Calif., serving the western part of the United States.

As of June 30, 1966, the Board's headquarters staff consisted of the following:

- Office of the Secretary.
- Office of Administration.
- Office of the Economic Advisor.
- Office of Assignments.
- Office of Accounting.
- Office of Review.
- Office of the General Counsel.

At each of the regional boards, the staff consisted of the Divisions of Administration, Accounting, Procurement Affairs, and Renegotiating, and the Office of the Regional Counsel.

C. OUTLINE OF THE RENEGOTIATION PROCESS

Originally the Act required every contractor having renegotiable business to file a report with the Board, regardless of the amount involved. At the present time, contractors whose renegotiable sales, on a fiscal year basis, are below the \$1 million statutory "floor" may file or not, as they choose.

All reports of contractors are examined at the headquarters of the Board in Washington, D.C. Filings which show aggregate renegotiable sales below the statutory floor are reviewed to determine their acceptability. In the case of above-the-floor filings, if the profits are obviously not excessive, notices of clearance without assignment are usually issued. All cases not cleared in this manner are assigned to the regional boards for renegotiation, usually on a geographic basis. In each assigned case, the regional board formally commences renegotiation, obtains such additional information as it may need, and then determines whether the contractor has realized excessive profits, and if so, in what amount.

The Board has delegated to the regional boards final authority to issue clearances or make refund agreements in cases involving aggregate renegotiable profits of \$800,000 or less. If, in a refund case, the contractor refuses to accept the determination, i.e., declines to enter into an agreement, the regional board issues an order directing the payment of the refund. From such an order, the contractor has a right of appeal to the Board.

In cases involving more than \$800,000 renegotiable profits, the regional boards do not have final authority, and their recommendations must be approved by the Board before refund agreements may be executed or clearances issued. If a regional board recommendation is not acceptable to either the Board or the contractor, the case is reassigned from the regional board to the Board for further processing and completion.

Reassigned cases are handled initially by divisions of the Board consisting of one or more Board members. The divisions make recommendations to the full Board for the final disposition of the cases.

Contractors may obtain a redetermination of any final order of the Board by filing a petition in the Tax Court of the United States.

II. Changes in Regulations During the Fiscal Year

Following are the more important changes in the regulations in the fiscal year ended June 30, 1966:

1. The regulations were amended to add Part 1450 dealing with the responsibilities and conduct of the Board's regular and special employees. This regulation implements Executive Order 11222.

2. The Board extended through December 31, 1964, the exemption of prime contracts for water transportation by common carrier at rates not in excess of rates regulated by the Federal Maritime Commission, and prime contracts with the Military Sea Transportation Service at established rates based upon the manifest measurement or weight of cargo.

3. The "stock item" exemption applicable to sales of materials customarily purchased for stock in the normal course of the purchaser's business was further extended by the Board through June 30, 1966. This exemption has been in effect throughout the life of the Act.

4. The regulations were amended to make clear the authority of the Board to determine a contractor's income or costs under such method of accounting as, in the opinion of the Board, properly reflects such income or costs, and to allocate costs allowable under the Internal Revenue Code not only between renegotiable and nonrenegotiable business, but also between fiscal years, as required to obtain a proper reflection of renegotiable profits.

III. Changes in Operating Procedures During the Fiscal Year

The Board expanded its data processing operations to control at each step the processing of all filings.

IV. Filings; Screening, Processing, and Completions

A. FILINGS BY CONTRACTORS

Every contractor having renegotiable business in excess of the statutory minimum must file a report with the headquarters of the Board. The number of such above-the-floor filings received by the Board in fiscal 1966 was 3,387. The number of filings received in the preceding fiscal year was 3,673.

Contractors whose renegotiable sales are below the statutory minimum may file reports with the Board, but they are not required to do so. A considerable number of such contractors usually elect to file. The number of such below-the-floor filings received by the Board in fiscal 1966 was 2,610. In the immediately preceding fiscal year the number of below-the-floor filings was 3,478.

B. SCREENING AT HEADQUARTERS

The processing of contractors' filings begins at the headquarters of the Board. In this screening process, each filing which shows renegotiable business above the statutory minimum is examined to determine the acceptability of the contractor's segregation of sales and allocation of costs. The available information is then evaluated to determine whether the filing should be assigned to the field for further processing or whether it should be cleared at headquarters without assignment. In fiscal 1966, 3,372 above-the-floor filings (including those of brokers and manufacturers' agents) were thus screened. The corresponding figure for fiscal 1965 was 3,691.

When a contractor's report shows a loss or obviously nonexcessive profits, action on the filing is usually completed at headquarters by the issuance of a notice of clearance without assignment. Of the 3,372 above-the-floor filings screened during fiscal 1966, 2,928, or 87.0 percent, were thus cleared at headquarters without assignment to a regional board. In fiscal 1965, 3,336 or 90.4 percent of the 3,691 above-the-floor filings were disposed of in a similar manner.

Filings not disposed of as a result of the headquarters screening process are assigned to the regional boards for renegotiation. In fiscal 1966, 444 filings were thus assigned.

The average time required for screening a filing was 38 days in fiscal 1966, as compared with 36 days in fiscal 1965.

C. PROCESSING OF ASSIGNMENTS

Cases assigned to the regional boards generally involve substantial questions which require time-consuming examination and analysis. In fiscal 1966, the regional boards completed the processing of 402 assignments; as of June 30, 1966, the number of pending assignments was 464.

Of the 402 assignments processed by the regional boards in fiscal 1966, 193 were completed by refund agreement, clearance, or decision not to proceed, and 209 were transferred to the headquarters of the Board for further processing.

Headquarters completed the processing of 184 assignments during the fiscal year.

D. COMPLETIONS

As of June 30, 1965, the total number of filings and assignments pending at headquarters and the regional boards was 772. During fiscal 1966, the Board received 3,387 new filings and completed the processing of 3,305 filings and assignments, leaving an ending inventory of 854.

As pointed out earlier, the average time for the processing of filings in the screening process was 38 days in fiscal 1966. The average time for the processing of assignments through the regional boards and headquarters was 16 months. Cases assigned to the regional boards involve more extensive examination and analysis than those screened out at headquarters. For this reason the average time for the completion of such cases is much greater.

V. Renegotiable Sales and Profits

In fiscal 1966, 3,072 above-the-floor filings of contractors, other than brokers or manufacturers' agents, were screened. These filings represented \$31.8 billion of renegotiable sales. The comparable figure for fiscal 1965 was \$34.8 billion. The decline is attributable mainly to decreased procurement in fiscal 1964 and 1965.

The composition of renegotiable sales, as disclosed in contractors' filings, is set forth in the following table:

Renegotiable Sales Reviewed in Fiscal 1966, by Contract Type

	[In millions of dollars]							
	Total		Cost-plus-fixed-fee		Fixed price		Other	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Prime contracts.....	\$24,618	77.3	\$6,821	27.7	\$9,214	37.4	\$8,584	34.9
Subcontracts...	7,186	22.6	995	13.8	5,210	72.5	980	13.6
Management fees, etc....	37	0.1	4	10.2	12	32.7	21	57.1
Total..	31,841	100.0	7,820	24.6	14,436	45.3	9,585	30.1

NOTE: Details do not add to totals because of rounding.

The above table, when compared with the corresponding tables for fiscal 1964 and 1965, shows the effects of a changed procurement policy. The percentage of CPFF sales dropped from 36.0 percent in fiscal 1964 to 29.1 percent in fiscal 1965 and 24.6 percent in fiscal 1966, with corresponding increases in the percentages of fixed-price and "other" sales, the latter including all sales under incentive-type contracts, as well as sales under price redetermination, time and material, and other types of contracts.

Of the 3,072 nonagent contractors whose filings were reviewed in fiscal 1966, 2,150, with renegotiable sales of \$26.9 billion, showed a profit of \$1.2 billion; and 922, with renegotiable sales of \$4.9 billion, showed a loss of \$283 million. Details are given in the tables below:

TABLE I.—*Sales and Profits of Companies Reporting Net Renegotiable Profits*

[In millions of dollars]

	Renegotiable sales		Renegotiable profits	
	Amount	Percent of total	Amount	Percent of total
Cost-plus-fixed-fee.....	\$6,965	25.9	\$200	16.1
Fixed price.....	11,051	41.0	574	46.1
Other.....	8,899	33.1	471	37.8
Total.....	26,915	100.0	1,245	100.0

TABLE II.—*Sales and Profits of Companies Reporting Net Renegotiation Losses*

[In millions of dollars]

	Renegotiable sales		Renegotiation losses	
	Amount	Percent of total	Amount	Percent of total
Cost-plus-fixed-fee.....	\$855	17.3	\$7	2.3
Fixed price.....	3,386	68.7	281	99.2
Other.....	686	13.9	4*	1.5*
Total.....	4,926	100.0	283	100.0

*Profit.

NOTE: Details do not add to totals because of rounding.

It should be noted that profit and loss figures in the above tables are net figures, reflecting the presence of both profitable and loss contracts in individual cases. Also, these figures are based on cost allowances required for renegotiation purposes. Such allowances differ in significant respects from costs allowable for procurement purposes.

Renegotiable business, as a whole, is composed of manufacturing, construction, service, and other activities connected with the national defense and space programs, often undertaken on contract terms which differ from terms used in commercial business, and under different circumstances. These activities are carried on by a variety of companies that are either wholly, partially, or only nominally in the defense or space fields. The commercial operations of such companies may or may not be comparable to their renegotiable business. Moreover, the statutory floor and various exemptions in the Act annually exclude several billions of dollars of defense sales from renegotiation. These factors, together with the great diversity of profit experience among contractors—ranging from losses to excessive profits—limit the validity of generalizations about the profitability of defense business as a whole, or of the \$31.8 billion of renegotiable sales reviewed in fiscal 1966.

VI. Excessive Profits Determinations

In fiscal 1966 the Board made 21 determinations of excessive profits totaling \$24,513,962; and, as of June 30, 1966, the Board had also made, but had not yet incorporated in agreements or orders, additional determinations in the amount of \$1,902,393. From its inception through June 30, 1966, the Board made 3,737 determinations of excessive profits totaling \$936,455,823.

Also in fiscal 1966, contractors reported to the Board voluntary refunds and price reductions in the amount of \$23,248,982. This brought the total of such refunds and price reductions reported since the inception of the Board to \$1,269,802,673. These refunds and price reductions are wholly voluntary, and are to be distinguished from price reductions made under the terms of price-redeterminable contracts.

The determinations of excessive profits in the amount of \$936,455,823 are after State income tax adjustments but before the deduction of credits for Federal income and excess profits taxes. As of June 30, 1966, total net recoveries by the Government after such tax adjustments and credits amounted to \$361,132,719. Of this amount, the sum of \$13,049,624 resulted from determinations made during fiscal 1966. Net recoveries by the Government arising from determinations of excessive profits are covered into the Treasury as miscellaneous receipts. They do not revert to departmental funds.

Determinations of excessive profits, broken down by the Government fiscal years in which they were made, are as follows:

<i>Fiscal year</i>	<i>Total</i>
1953	\$19,970,771
1954	119,463,169
1955	167,256,288
1956	152,649,327
1957	150,991,300
1958	112,724,199
1959	60,757,877
1960	52,708,003
1961	17,200,093
1962	7,844,467
1963	10,069,536
1964	24,160,028
1965	16,146,803
1966	24,513,962
Total	936,455,823

NOTE: The above total includes determinations of \$33,185,470 made pursuant to the 1943 and 1948 acts.

The annual record of determinations for the period covered in the foregoing table was influenced by several factors. As late as 1958, determinations made by the Board reflected the high profits attributable to the emergency procurement conditions of the Korean conflict. In the early part of the period, cost-plus-a-fixed-fee contracts (which generally carry lower profits than other types of contracts) were used on a relatively small scale. Subsequently, however, the use of such contracts increased. Thus, although in recent years procurement agencies have been curtailing the use of CPFF contracts, CPFF sales still constituted a significant part of renegotiable sales reported in 1966. As pointed out elsewhere in this report, out of a total of \$31.8 billion renegotiable business reviewed by the Board in 1966, cost-plus-a-fixed-fee prime contracts and subcontracts accounted for \$7.8 billion, or 24.6 percent of the total. Another factor was the curtailment of the Board's jurisdiction through increases in the statutory floor and the enactment of various exemptions. Still another factor was the effect of recessionary conditions prevailing during some of the years in the above table.

The Act provides that the Board shall endeavor to reach an agreement with a contractor on the amount of excessive profits, if any, and that the Board shall issue an order determining excessive profits only

if an agreement is not made. Of the 21 determinations of excessive profits made by the Board during fiscal 1966, 15 resulted in agreements between the Board and the contractors involved; 6 resulted in the issuance of unilateral orders. As the table below indicates, the Board made 3,737 determinations of excessive profits through June 30, 1966, and 3,361, or 89.9 percent of such determinations, were agreed to by contractors. These agreements accounted for \$677 million, or 72.2 percent, of the total amount of excessive profits determined. Details are as follows:

Excessive Profits Determinations: Agreements and Unilateral Orders:

TABLE I.—*Number of Determinations*

	<i>Total</i>	<i>By agreement</i>	<i>Percent of total</i>	<i>By order</i>	<i>Percent of total</i>
Through June 30, 1965	3,716	3,346	90.0	370	10.0
Fiscal year 1966	21	15	71.4	6	28.6
Total	3,737	3,361	89.9	376	10.1

TABLE II.—*Amount of Determinations*

[In millions of dollars]

	<i>Total</i>	<i>By agreement</i>	<i>Percent of total</i>	<i>By order</i>	<i>Percent of total</i>
Through June 30, 1965	\$911.94	\$673.97	73.9	\$237.97	26.1
Fiscal year 1966	24.51	2.61	10.6	21.91	89.4
Total	936.45	676.58	72.2	259.88	27.8

NOTE: Details do not add to totals because of rounding.

VII. Appeals

When a contractor does not agree with a determination of excessive profits, the Board issues a unilateral order directing the contractor to pay to the Government the amount of excessive profits to be refunded.

As shown in the preceding section, 6 of the 21 determinations of excessive profits made by the Board during fiscal 1966 resulted in unilateral orders. Under the Act, contractors have a right to petition the Tax Court of the United States for a redetermination. Four of the six unilateral orders issued by the Board during the fiscal year were appealed to the Court and, as of June 30, 1966, the time for appealing one order had not expired.

From the inception of the Board through June 30, 1966, 140 of the 376 unilateral orders issued by the Board were appealed to the Tax Court. Details are set forth in the following table:

Excessive Profits Determinations Taken to the Tax Court as of June 30, 1966

<i>Fiscal year of Board determination</i>	<i>Number of determinations</i>	<i>Amount of determinations</i>
1953.....	0	0
1954.....	7	\$310, 119
1955.....	12	5, 610, 285
1956.....	16	12, 678, 321
1957.....	25	36, 693, 939
1958.....	17	31, 506, 588
1959.....	11	18, 743, 297
1960.....	19	27, 252, 429
1961.....	10	8, 497, 330
1962.....	3	344, 172
1963.....	8	5, 372, 151
1964.....	5	8, 979, 225
1965.....	3	1, 946, 447
1966.....	4	4, 325, 518
Total.....	140	162, 259, 821

During fiscal 1966, the Tax Court disposed of 10 cases. As the table below indicates, as of June 30, 1966, the Court had disposed of a total of 101 cases, leaving 39 pending on that date.

Renegotiation Cases in the Tax Court

	<i>Total filed</i>	<i>Dismissed</i>	<i>Closed by stipulation</i>	<i>Closed by redetermination</i>	<i>Pending</i>
Through June 30, 1965.....	136	39	29	23	45
Fiscal year 1966.....	4	4	0	6	(6)
Total as of June 30, 1966..	140	43	29	29	39

The aggregate amount of excessive profits determinations involved in the 39 pending cases is \$41,091,181.

The 101 cases concluded in the Tax Court as of June 30, 1966 involved Board determinations of excessive profits in the amount of \$139 million. The Court upheld the Board's determination in 59 of the 101 cases reviewed; in 5 cases the determinations were increased and in 37 they were decreased. Details are set forth in the following table:

Tax Court Action on Board Determinations

<i>Court action ending in—</i>	<i>Number of Determinations</i>				<i>Amount of Board determinations</i>	<i>Amount of Court redeterminations</i>
	<i>Total</i>	<i>Upheld</i>	<i>Modified upward</i>	<i>Modified downward</i>		
Dismissal.....	43	43	----	----	\$39, 197, 525	\$39, 197, 525
Stipulation.....	29	2	3	24	66, 818, 411	58, 580, 363
Redetermination...	29	14	2	13	32, 965, 000	31, 596, 000
Total.....	101	59	5	37	\$138, 980, 936	\$129, 373, 888

¹ Before State tax credits, except in one case.

Section 108A of the Act, to a limited extent, authorizes appeals of renegotiation decisions of the Tax Court to appellate courts. As of June 30, 1966, there was one case pending in the Court of Appeals for the Fourth Circuit.

VIII. Exemption of Commercial Articles and Services

Section 106(e) of the Act, enacted in August 1956, amended the previous provisions governing the mandatory exemption of standard commercial articles and services, and substituted new provisions for contractors' fiscal years ending after June 30, 1956. The new exemption was made self-executing with respect to articles meeting certain conditions while, in case of other articles, it was made available only upon application to the Board.

In fiscal 1966, contractors who filed reports with the Board indicated self-application of the exemption in the amount of \$438.7 million. The Board has no way of knowing or estimating how many millions of dollars of sales were treated as exempt in the fiscal year by contractors who did not file reports with the Board because their renegotiable sales were below the floor.

In fiscal 1966 there were 264 applications to the Board for commercial exemption. Data respecting Board action on these applications are set forth in the following table:

Application for Commercial Exemption

[Sales in thousands of dollars]

	<i>Number of applications</i>	<i>Amount of exemptions applied for</i>	<i>Amount of exemptions approved</i>	<i>Amount of exemptions denied</i>
Through June 30, 1965.....	1, 551	\$3, 665, 897	\$3, 399, 245	\$266, 652
Fiscal year 1966.....	264	545, 733	527, 667	18, 066
Total.....	1, 815	4, 211, 630	3, 926, 912	284, 718

IX. Expenses and Personnel

During the fiscal year the Board continued its efforts to improve the efficiency of its operations and strictly observed the President's directives on control of employment. As a result, for the third consecutive year, the Board was able to reduce personnel. At the end of fiscal 1966 employment was 179 as compared with 184 at the end of the preceding year.

The number of personnel on duty at headquarters and at the regional boards on June 30 of each fiscal year from 1952 to 1966 and details of the Board's expenses during these years are set forth in the tables below:

Number of Personnel

<i>Fiscal year</i>	<i>Total</i>	<i>Headquarters</i>	<i>Regional Boards</i>
1952.....	558	169	389
1953.....	742	178	564
1954.....	639	174	465
1955.....	540	193	347
1956.....	466	181	285
1957.....	359	155	204
1958.....	326	142	184
1959.....	301	136	165
1960.....	284	130	154
1961.....	271	123	148
1962.....	193	114	79
1963.....	223	131	92
1964.....	206	121	85
1965.....	184	108	76
1966.....	179	101	78

Renegotiation Board Expenses Through June 30, 1966

<i>Fiscal year</i>	<i>Total</i>	<i>Salaries</i>	<i>All other</i>
1952.....	\$1,606,259	\$1,176,003	\$430,256
1953.....	5,093,308	4,443,662	649,646
1954.....	5,116,806	4,823,730	293,076
1955.....	4,388,924	4,159,975	228,949
1956.....	3,860,987	3,632,357	228,630
1957.....	3,514,032	3,320,272	193,760
1958.....	3,028,037	2,729,362	298,675
1959.....	3,003,657	2,702,100	301,557
1960.....	2,814,200	2,511,119	303,081
1961.....	2,911,684	2,600,646	311,038
1962.....	2,579,513	2,246,385	333,128
1963.....	2,325,462	2,024,826	300,636
1964.....	2,507,482	2,229,818	277,664
1965.....	2,576,478	2,286,223	290,255
1966.....	2,470,470	2,181,110	289,360
Total.....	47,797,299	43,067,588	4,729,711

The

RENEGOTIATION BOARD

Twelfth Annual Report

1967



Letter of Transmittal

The Renegotiation Board
Washington, D.C.
December 31, 1967

To the Congress of the United States:

I have the honor to transmit to you the Twelfth Annual Report of The Renegotiation Board, covering the fiscal year July 1, 1966 through June 30, 1967, as required by Section 114 of the Renegotiation Act of 1951, as amended.

LAWRENCE E. HARTWIG,
Chairman.

THE PRESIDENT OF THE SENATE
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

The Renegotiation Board

Members of the Board:

LAWRENCE E. HARTWIG, *Chairman* ¹

HERSCHEL C. LOVELESS ²

THOMAS D'ALESSANDRO, JR. ³

WILLIAM M. BURKHALTER ⁴

JACK BEATY ⁵

Headquarters Office
1910 K Street NW.
Washington, D.C. 20446

¹ Appointed October 3, 1951, designated Chairman April 13, 1961.

² Appointed March 17, 1961.

³ Appointed March 28, 1961.

⁴ Appointed April 10, 1962.

⁵ Appointed February 28, 1963.

Contents

	<i>Page</i>
I. THE PURPOSE AND PROCESS OF RENEGOTIATION.....	1
II. CHANGES IN REGULATIONS DURING THE FISCAL YEAR.....	5
III. CHANGES IN OPERATING PROCEDURES DURING THE FISCAL YEAR.....	5
IV. FILINGS; SCREENING, PROCESSING, AND COMPLETIONS....	6
V. RENEGOTIABLE SALES AND PROFITS.....	7
VI. EXCESSIVE PROFITS DETERMINATIONS.....	9
VII. APPEALS.....	11
VIII. EXEMPTIONS OF COMMERCIAL ARTICLES AND SERVICES....	13
IX. EXPENSES AND PERSONNEL.....	13

Twelfth Annual Report of The Renegotiation Board

For the Fiscal Year Ended June 30, 1967

I. The Purpose and Process of Renegotiation

Profit limitation on defense contracts is a long-established national policy reflected in a succession of congressional enactments. The limitation of profit margins on naval ship procurement dates from 1934 and on aircraft procurement from 1939. Renegotiation, as such, had its origin in the Renegotiation Act of 1942. In the Renegotiation Act of 1943, Congress defined the process more completely and prescribed specific factors to be considered in determining excessive profits. The termination date of the 1943 Act was December 31, 1945. Subsequently Congress enacted the Renegotiation Act of 1948, which had limited application.

The present Renegotiation Board, created by the Renegotiation Act of 1951, has continued the work of the predecessor boards to assure that no excessive profits are realized by prime contractors and subcontractors as a result of the continuing large Federal procurement outlays for defense and space purposes.

The purpose of the Renegotiation Act as defined by Congress—the elimination of excessive profits on Government contracts and related subcontracts—is accomplished both by Board proceedings resulting in refunds of excessive profits and by the voluntary actions of contractors. Determinations of excessive profits made by the Board during fiscal 1967 aggregated \$15,980,214, bringing the total since 1951 to \$952,436,037, before adjustment for Federal income and excess profits tax credits. Voluntary refunds and voluntary price reductions, reported by contractors in connection with renegotiation proceedings, amounted to \$30,318,586 in fiscal 1967. Since the creation of the present Board and through June 30, 1967, such reported savings totaled \$1,300,121,259.

A. SCOPE OF RENEGOTIATION

The Act applies only to contracts with Government agencies specifically named in or designated pursuant to the Act,¹ and to related subcontracts. By virtue of exemptions granted in or pursuant to the Act, certain contracts even with these agencies are excluded from renegotiation.

Among the mandatory exemptions provided in the Act are those which exempt contracts and subcontracts for raw materials or agricultural commodities, contracts and subcontracts with common carriers, public utilities and tax-exempt organizations under certain circumstances, competitively bid construction contracts with some exceptions, and prime contracts which the Board determines do not have a direct and immediate connection with the national defense. Contracts and subcontracts for the sale of new durable productive equipment are partially exempt from renegotiation, and contracts and subcontracts for the sale of commercial articles or services are exempt under certain circumstances.

In addition to the mandatory exemptions provided in the Act, the Board itself is authorized to exempt certain other types of contracts or subcontracts from renegotiation. Among the permissive exemptions granted by the Board pursuant to this authority is the so-called "stock item" exemption. In general, this exemption applies to sales made to replenish stocks customarily maintained by a purchaser, except when the materials are specially purchased for use in performing renegotiable contracts.

For purposes of renegotiation, profits are defined as the excess of the amount received or accrued under renegotiable contracts and subcontracts over the costs paid or incurred with respect thereto and determined to be allocable thereto. All items estimated to be allowed as deductions and exclusions under Chapter I of the Internal Revenue Code (excluding taxes measured by income) must, to the extent allocable to renegotiable business, be allowed as items of costs. Here renegotiation differs from procurement; procurement regulations are more restrictive with respect to costs that may be allowed for contracting purposes.

What part, if any, of the profits thus defined is excessive, is determined on the basis of the statutory definition of excessive profits contained in Section 103(e) of the Act:

Excessive profits.—The term "excessive profits" means the portion of the profits derived from contracts with the Departments and subcontracts which is determined in accordance with this title to be excessive. In determining excessive profits, favorable recognition must be given to the efficiency of the contractor

¹ These agencies are the Departments of Defense, the Army, the Navy, and the Air Force, the Maritime Administration, the Federal Maritime Board, the General Services Administration, the National Aeronautics and Space Administration, the Atomic Energy Commission, and the Federal Aviation Agency (now the Federal Aviation Administration).

or subcontractor, with particular regard to attainment of quantity and quality production, reduction of costs, and economy in the use of materials, facilities, and manpower; and in addition, there shall be taken into consideration the following factors:

- (1) Reasonableness of costs and profits, with particular regard to volume of production, normal earnings, and comparison of war and peacetime products;
- (2) The net worth, with particular regard to the amount and source of public and private capital employed;
- (3) Extent of risk assumed, including the risk incident to reasonable pricing policies;
- (4) Nature and extent of contribution to the defense effort, including inventive and developmental contribution and cooperation with the Government and other contractors in supplying technical assistance;
- (5) Character of business, including source and nature of materials, complexity of manufacturing technique, character and extent of subcontracting, and rate of turn-over;
- (6) Such other factors the consideration of which the public interest and fair and equitable dealing may require, which factors shall be published in the regulations of the Board from time to time as adopted.

It is apparent from the statutory language that no formulae or pre-established rates can be used to determine whether profits are, or are not, excessive in any given case. Rather, the determination in each instance must reflect the judgment of the Board on the application of each of the statutory factors enumerated above to the facts of the specific case.

In eliminating excessive profits, credit is allowed for Federal income taxes, and adjustment is made for State income taxes attributable to the nonexcessive renegotiable profits.

Under the statute, renegotiation is conducted not with respect to individual contracts, but with respect to the receipts or accruals under all renegotiable contracts and subcontracts of a contractor in the contractor's fiscal year.

The contracts may vary in form from cost-plus-a-fixed-fee to firm fixed-price; they may be prime contracts or subcontracts; and they may relate to a variety of products and services. Also, they may be performed over differing periods: some may be completed within the contractor's particular fiscal year, while the performance of others may extend beyond such year. Accordingly, aggregate renegotiable profits during any fiscal year of a given contractor will often reflect the performance of different contracts in different stages of completion, and may result from an offset of losses or low profits on some contracts against high or even excessive profits on others. Thus fiscal-year renegotiation, which deals with aggregate profits, is entirely different from price adjustment or redetermination of individual contract prices pursuant to contract provisions.

B. ORGANIZATION OF THE RENEGOTIATION BOARD

The Renegotiation Act of 1951 created, for the first time, an independent agency, The Renegotiation Board, to administer renegotiation.

IV. Filings; Screening, Processing, and Completions

A. FILINGS BY CONTRACTORS

Every contractor having renegotiable business in excess of the statutory minimum must file a report with the headquarters of the Board. The number of such above-the-floor filings received by the Board in fiscal 1967 was 3,737. The number of filings received in the preceding fiscal year was 3,387.

Contractors whose renegotiable sales are below the statutory minimum may file reports with the Board, but they are not required to do so. A considerable number of such contractors usually elect to file. The number of such below-the-floor filings received by the Board in fiscal 1967 was 2,328. In the immediately preceding fiscal year the number of below-the-floor filings was 2,610.

B. SCREENING AT HEADQUARTERS

The processing of contractors' filings begins at the headquarters of the Board. In this screening process, each filing which shows renegotiable business above the statutory minimum is examined to determine the acceptability of the contractor's segregation of sales and allocation of costs. The available information is then evaluated to determine whether the filing should be assigned to the field for further processing or whether it should be cleared at headquarters without assignment. In fiscal 1967, 3,782 above-the-floor filings (including those of brokers and manufacturers' agents) were thus screened. The corresponding figure for fiscal 1966 was 3,372.

When a contractor's report shows a loss or obviously nonexcessive profits, action on the filing is usually completed at headquarters by the issuance of a notice of clearance without assignment. Of the 3,782 above-the-floor filings screened during fiscal 1967, 3,147, or 83.2 percent, were thus cleared at headquarters without assignment to a regional board. In fiscal 1966, 2,928 or 86.8 percent of the 3,372 above-the-floor filings were disposed of in a similar manner.

Filings not disposed of as a result of the headquarters screening process are assigned to the regional boards for renegotiation. In fiscal 1967, 635 filings were thus assigned, as against 444 in fiscal 1966, an increase of 43 percent. Most of the increase occurred in the last quarter of the fiscal year when the first filings reflecting the surge of Vietnam procurement were processed. This sharp increase indicated the beginning of an upward trend in the Board's workload.

The average time required for screening a filing was 48 days in fiscal 1967, as compared with 38 days in fiscal 1966.

C. PROCESSING OF ASSIGNMENTS

Cases assigned to the regional boards generally involve substantial questions which require time-consuming examination and analysis. In fiscal 1967, the regional boards completed the processing of 421 assignments; as of June 30, 1967, the number of pending assignments was 678.

Of the 421 assignments processed by the regional boards in fiscal 1967, 213 were completed by refund agreement, clearance, or decision not to proceed, and 208 were transferred to the headquarters of the Board for further processing.

Headquarters completed the processing of 201 assignments during the fiscal year.

D. COMPLETIONS

As of June 30, 1966, the total number of filings and assignments pending at headquarters and the regional boards was 854. During fiscal 1967, the Board received 3,737 new filings and completed the processing of 3,561 filings and assignments, leaving an ending inventory of 1,030.

As pointed out earlier, the average time for the processing of filings in the screening process was 48 days in fiscal 1967. The average time for the processing of assignments through the regional boards and headquarters was 15 months. Cases assigned to the regional boards involve more extensive examination and analysis than those screened out at headquarters. For this reason the average time for the completion of such cases is much greater.

V. Renegotiable Sales and Profits

In fiscal 1967, 3,447 above-the-floor filings of contractors, other than brokers or manufacturers' agents, were screened. These filings represented \$33.1 billion of renegotiable sales. The comparable figure for fiscal 1966 was \$31.8 billion.

The composition of renegotiable sales, as disclosed in contractors' filings, is set forth in the following table:

Renegotiable Sales Reviewed in Fiscal 1967, by Contract Type

	[In millions of dollars]							
	Total		Cost-plus-fixed-fee		Fixed price		Other	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Prime contracts.....	\$24,785	74.8	\$5,286	21.3	\$10,877	43.9	\$8,623	34.8
Subcontracts...	8,309	25.1	731	8.8	6,409	77.1	1,169	14.1
Management fees, etc....	31	.1	3	9.7	3	9.7	25	80.6
Total...	33,124	100.0	6,020	18.2	17,288	52.2	9,816	29.6

NOTE: Details do not add to totals because of rounding.

The above table, when compared with the corresponding tables of earlier fiscal years, shows the continuing effects of a changing procurement policy. The percentage of CPFF sales dropped from 36.0 percent in fiscal 1964 to 29.1 percent in fiscal 1965, 24.6 percent in fiscal 1966, and 18.2 percent in fiscal 1967. There were corresponding increases during the period in the percentage of fixed-price sales. The percentage of "other" sales, which include sales under incentive-type contracts, rose in fiscal 1965 and 1966 but declined slightly in fiscal 1967.

Of the 3,447 nonagent contractors whose filings were reviewed in fiscal 1967, 2,712, with renegotiable sales of \$28.9 billion, showed a profit of \$1.4 billion, and 735, with renegotiable sales of \$4.2 billion, showed a loss of \$272 million. When compared with earlier fiscal years, these figures indicate a considerable decline in both the number of "loss" contractors and the amount of "loss" sales. Details are given in the tables below:

TABLE I.—*Sales and Profits of Companies Reporting Net Renegotiable Profits*

[In millions of dollars]

	Renegotiable sales		Renegotiable profits	
	Amount	Percent of total	Amount	Percent of total
Cost-plus-fixed-fee.....	\$5,332	18.4	\$153	10.6
Fixed price.....	14,156	49.0	785	54.4
Other.....	9,426	32.6	505	35.0
Total.....	28,914	100.0	1,443	100.0

TABLE II.—*Sales and Profits of Companies Reporting Net Renegotiation Losses*

[In millions of dollars]

	Renegotiable sales		Renegotiable losses	
	Amount	Percent of total	Amount	Percent of total
Cost-plus-fixed-fee.....	\$688	16.3	0	0.0
Fixed price.....	3,132	74.4	\$261	96.0
Other.....	391	9.3	11	4.0
Total.....	4,210	100.0	272	100.0

NOTE: Details do not add to totals because of rounding.

It should be noted that profit and loss figures in the above tables are net figures, reflecting the presence of both profitable and loss contracts in individual cases. Also, these figures are based on cost allowances required for renegotiation purposes. Such allowances differ in significant respects from costs allowable for procurement purposes.

Renegotiable business, as a whole, is composed of manufacturing, construction, service, and other activities connected with the national defense and space programs, often undertaken on contract terms

which differ from terms used in commercial business, and under different circumstances. These activities are carried on by a variety of companies that are either wholly, partially, or only nominally in the defense or space fields. The commercial operations of such companies may or may not be comparable to their renegotiable business. Moreover, the statutory floor and various exemptions in the Act annually exclude several billions of dollars of defense sales from renegotiation. These factors, together with the great diversity of profit experience among contractors—ranging from losses to excessive profits—limit the validity of generalizations about the profitability of defense business as a whole, or of the \$33.1 billion of renegotiable sales reviewed in fiscal 1967.

VI. Excessive Profits Determinations

In fiscal 1967 the Board made 18 determinations of excessive profits, totaling \$15,980,214. From its inception through June 30, 1967, the Board made 3,755 determinations of excessive profits, totaling \$952,436,037.

Also in fiscal 1967, contractors reported to the Board voluntary refunds and price reductions in the amount of \$30,318,586. This brought the total of such refunds and price reductions reported since the inception of the Board to \$1,300,121,259. Such refunds and price reductions are wholly voluntary, and are to be distinguished from price reductions made under the terms of price-redeterminable contracts.

The determinations of excessive profits in the amount of \$952,436,037 are after State income tax adjustments but before the deduction of credits for Federal income and excess profits taxes. As of June 30, 1967, net recoveries by the Government after such tax adjustments and credits amounted to \$369,386,976. Of this amount, the sum of \$8,254,257 resulted from determinations made during fiscal 1967. Net recoveries by the Government arising from determinations of excessive profits are covered into the Treasury as miscellaneous receipts. They do not revert to departmental funds.

Determinations of excessive profits, broken down by the Government fiscal years in which they were made, are as follows:

<i>Fiscal year</i>	<i>Total</i>
1953 -----	\$ 19,970,771
1954 -----	119,463,169
1955 -----	167,256,288
1956 -----	152,649,327
1957 -----	150,991,300
1958 -----	112,724,199
1959 -----	60,757,877
1960 -----	52,708,003
1961 -----	17,200,093
1962 -----	7,844,467
1963 -----	10,069,536
1964 -----	24,160,028
1965 -----	16,146,803
1966 -----	24,513,962
1967 -----	15,980,214
Total -----	952,436,037

NOTE: The above total includes determinations of \$33,185,470 made pursuant to the 1943 and 1948 acts.

The annual record of determinations for the period covered in the foregoing table was influenced by several factors. As late as 1958, determinations made by the Board reflected the high profits attributable to the emergency procurement conditions of the Korean conflict. In the early part of the period, cost-plus-a-fixed-fee contracts (which generally carry lower profits than other types of contracts) were used on a relatively small scale. Subsequently, however, the use of such contracts increased. Thus, although in recent years procurement agencies have been curtailing the use of CPFF contracts, CPFF sales still represented 18.2 percent of the total of \$33.1 billion renegotiable business reviewed by the Board in fiscal 1967. Another factor was the curtailment of the Board's jurisdiction through increases in the statutory floor and the enactment of various exemptions. Still another factor was the effect of recessionary conditions prevailing during some of the earlier years. Because of the normal time lag between the award of a contract and the reporting of receipts and accruals thereunder for renegotiation, as well as the time required for the processing of a renegotiation case, the effect of accelerated Vietnam procurement is not reflected in the table.

The Act provides that the Board shall endeavor to reach an agreement with a contractor on the amount of excessive profits, if any, and that the Board shall issue an order determining excessive profits only if an agreement is not made. Of the 18 determinations of excessive profits made by the Board during fiscal 1967, 14 resulted in agreements between the Board and the contractors involved; 4 resulted in

the issuance of unilateral orders. As the table below indicates, the Board made 3,755 determinations of excessive profits through June 30, 1967, and 3,375, or 89.9 percent of such determinations, were agreed to by contractors. These agreements accounted for \$682 million, or 71.6 percent, of the total amount of excessive profits determined. Details are as follows:

Excessive Profits Determinations: Agreements and Unilateral Orders:

TABLE I.—*Number of Determinations*

	<i>Total</i>	<i>By agree- ment</i>	<i>Percent of total</i>	<i>By order</i>	<i>Percent of total</i>
Through June 30, 1966-----	3,737	3,361	89.9	376	10.1
Fiscal year 1967-----	18	14	77.8	4	22.2
Total-----	3,755	3,375	89.9	380	10.1

TABLE II.—*Amount of Determinations*

[In millions of dollars]					
	<i>Total</i>	<i>By agree- ment</i>	<i>Percent of total</i>	<i>By order</i>	<i>Percent of total</i>
Through June 30, 1966-----	\$936.46	\$676.58	72.2	\$259.88	27.8
Fiscal year 1967-----	15.98	5.75	36.0	10.23	64.0
Total-----	952.44	682.33	71.6	270.11	28.4

NOTE: Details do not add to totals because of rounding.

VII. Appeals

When a contractor does not agree with a determination of excessive profits, the Board issues a unilateral order directing the contractor to pay to the Government the amount of excessive profits to be eliminated.

As shown in the preceding section, 4 of the 18 determinations of excessive profits made by the Board during fiscal 1967 resulted in unilateral orders. Under the Act, contractors have a right to petition the Tax Court of the United States for a redetermination. One of the four unilateral orders issued by the Board during the fiscal year was appealed to the Court and, as of June 30, 1967, the time for appealing three orders had not expired.

From the inception of the Board through June 30, 1967, 142 of the 380 unilateral orders issued by the Board were appealed to the Tax Court. Details are set forth in the following table:

**Excessive Profits Determinations Taken to the Tax Court as of
June 30, 1967**

<i>Fiscal year of Board determination</i>	<i>Number of determinations</i>	<i>Amount of determinations</i>
1953.....	0	0
1954.....	7	\$310, 119
1955.....	12	5, 610, 285
1956.....	16	12, 678, 321
1957.....	25	36, 693, 939
1958.....	17	31, 506, 588
1959.....	11	18, 743, 297
1960.....	19	27, 252, 429
1961.....	10	8, 497, 330
1962.....	3	344, 172
1963.....	8	5, 372, 151
1964.....	5	8, 979, 225
1965.....	3	1, 946, 447
1966.....	4	4, 325, 518
1967.....	2	8, 643, 907
Total.....	142	170, 903, 728

During fiscal 1967, the Tax Court disposed of 10 cases. As the table below indicates, as of June 30, 1967, the Court had disposed of a total of 111 cases, leaving 31 pending on that date.

Renegotiation Cases in the Tax Court

	<i>Total filed</i>	<i>Dismissed</i>	<i>Closed by stipulation</i>	<i>Closed by redetermination</i>	<i>Pending</i>
Through June 30, 1966.....	140	43	29	29	39
Fiscal year 1967.....	2	6	4	0	(8)
Total as of June 30, 1967..	142	49	33	29	31

The aggregate amount of excessive profits determinations involved in the 31 pending cases is \$26,331,181.

The 111 cases concluded in the Tax Court as of June 30, 1967, involved Board determinations of excessive profits in the amount of \$161 million. The Court upheld the Board's determination in 65 of the 111 cases reviewed; in 6 cases the determinations were increased and in 40 they were decreased. Details are set forth in the following table:

Tax Court Action on Board Determinations

<i>Court action ending in—</i>	<i>Number of Determinations</i>				<i>Amount of Board determinations</i>	<i>Amount of Court redeterminations</i>
	<i>Total</i>	<i>Up-held</i>	<i>Modi-fied up-ward</i>	<i>Modi-fied down-ward</i>		
Dismissal.....	49	49	----	----	\$46, 807, 525	\$46, 807, 525
Stipulation.....	33	2	4	27	81, 418, 411	73, 180, 363
Redetermination...	29	14	2	13	32, 965, 000	31, 596, 000
Total.....	111	65	6	40	161, 190, 936	151, 583, 888

¹ Before State tax credits, except in one case.

Section 108A of the Act, to a limited extent, authorizes appeals of renegotiation decisions of the Tax Court to appellate courts. As of June 30, 1967, there were two cases pending in the Courts of Appeals.

VIII. Exemption of Commercial Articles and Services

Section 106(e) of the Act, enacted in August 1956, amended the previous provisions governing the mandatory exemption of standard commercial articles and services, and substituted new provisions for contractors' fiscal years ending after June 30, 1956. The new exemption was made self-executing with respect to articles meeting certain conditions while, in the case of other articles, it was made available only upon application to the Board.

In fiscal 1967, contractors who filed reports with the Board indicated self-application of the exemption in the amount of \$772.6 million. The Board has no way of knowing or estimating how many millions of dollars of sales were treated as exempt in the fiscal year by contractors who did not file reports with the Board because their renegotiable sales were below the floor.

In fiscal 1967 there were 251 applications to the Board for commercial exemption. Data respecting Board action on these applications are set forth in the following table:

Application for Commercial Exemption

	<i>[Sales in thousands of dollars]</i>			
	<i>Number of applications</i>	<i>Amount of exemptions applied for</i>	<i>Amount of exemptions approved</i>	<i>Amount of exemptions denied</i>
Through June 30, 1966....	1, 815	\$4, 211, 630	\$3, 926, 912	\$284, 718
Fiscal year 1967.....	251	671, 901	636, 611	35, 290
Total.....	2, 066	4, 883, 531	4, 563, 523	320, 008

IX. Expenses and Personnel

During the fiscal year the Board continued its efforts to improve the efficiency of its operations and strictly observed the President's directives on control of employment.

The number of personnel on duty at headquarters and at the regional boards on June 30 of each fiscal year from 1952 to 1967 and

details of the Board's expenses during these years are set forth in the tables below:

Number of Personnel

<i>Fiscal year</i>	<i>Total</i>	<i>Headquarters</i>	<i>Regional Boards</i>
1952.....	558	169	389
1953.....	742	178	564
1954.....	639	174	465
1955.....	540	193	347
1956.....	466	181	285
1957.....	359	155	204
1958.....	326	142	184
1959.....	301	136	165
1960.....	284	130	154
1961.....	271	123	148
1962.....	193	114	79
1963.....	223	131	92
1964.....	206	121	85
1965.....	184	108	76
1966.....	179	101	78
1967.....	178	102	76

Renegotiation Board Expenses Through June 30, 1967

<i>Fiscal year</i>	<i>Total</i>	<i>Salaries</i>	<i>All other</i>
1952.....	\$1, 606, 259	\$1, 176, 003	\$430, 256
1953.....	5, 093, 308	4, 443, 662	649, 646
1954.....	5, 116, 806	4, 823, 730	293, 076
1955.....	4, 388, 924	4, 159, 975	228, 949
1956.....	3, 860, 987	3, 632, 357	228, 630
1957.....	3, 514, 032	3, 320, 272	193, 760
1958.....	3, 028, 037	2, 729, 362	298, 675
1959.....	3, 003, 657	2, 702, 100	301, 557
1960.....	2, 814, 200	2, 511, 119	303, 081
1961.....	2, 911, 684	2, 600, 646	311, 038
1962.....	2, 579, 513	2, 246, 385	333, 128
1963.....	2, 325, 462	2, 024, 826	300, 636
1964.....	2, 507, 482	2, 229, 818	277, 664
1965.....	2, 577, 345	2, 286, 223	291, 122
1966.....	2, 468, 887	2, 180, 394	288, 493
1967.....	2, 536, 337	2, 238, 684	297, 653
Total.....	50, 332, 920	45, 305, 556	5, 027, 364