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November 15, 1963

Dear Bill,

I tried to telephone you before leaving for Fort Benning but I assume that you are all wrapped up with TWA and Northeast activities. I wanted to get together with you to get the intelligance I need to make decisions concerning my primary client for military helicopter consulting and the Hughes helicopter dealership. I must make these decisions quickly and as you know, one relates to the other.

Enclosed is an interesting financial run-down on the Aircraft Division LOH program. One paper is my memorandum of 16 November 1962 warning of the future problem and the other is a recent report on the financial status of the program.

Aside from the financial effect on the Tool Company, the thing that disturbs me greatly is the fact that the production program for LOHs is going to be awarded as much on the basis of management competence as the technical stature of the aircraft.

I have been wondering whether you expect me to submit a statement at the end of each month (October 15, November 15, etc.) for consulting services. I haven't done so as I didn't think you wanted paper in circulation.

Best Regards,

Al

Mr. F. W. Gay
18005 Rancho Street
Encino, California

Enclosures

R. E. Hopper 16 November 1962

Projected Increases in G&A Expenses

A. W. Bayer
Vice President,
Marketing

As a continuation of our discussion of the projected increase in G&A costs over the next year and subsequent years, I have had Contracts analyze the impact of the estimated increased G&A on the LOH program.

Based on the negotiated target price of $6,352,,879, there was $344,094 of estimated profit when these originally estimated costs of $6,008,785 are considered. The negotiated ceiling dollars represent an additional $635,288. Therefore, based on the original negotiations, we considered that the company had a contingency of $979,382 (Profit $344,094 plus ceiling $635,288) should technical difficulties arise in the OH6-A development program.

Current company projections for the LOH program indicate that there will be overruns in the following categories:

			over (under)	
1.	Manufacturing			
		Direct costs	$ 109,000	
		Overhead	222,000	
			$ 331,000	331,000
2.	Engineering			
		Direct Costs	$ 5,000	
		Overhead	(185,000)	
			$(180,000)	(180,000)
3.	Materials and Subcontracts		$ 494,000	494,000
4.	General & Administrative Rates			693,000
		Total estimated costs, exclusive of profit and ceiling		$1,338,000

From the above analysis it is apparent that the major areas contributing to the estimated overrun are Manufacturing, Material and Subcontracts and General and Administrative costs.

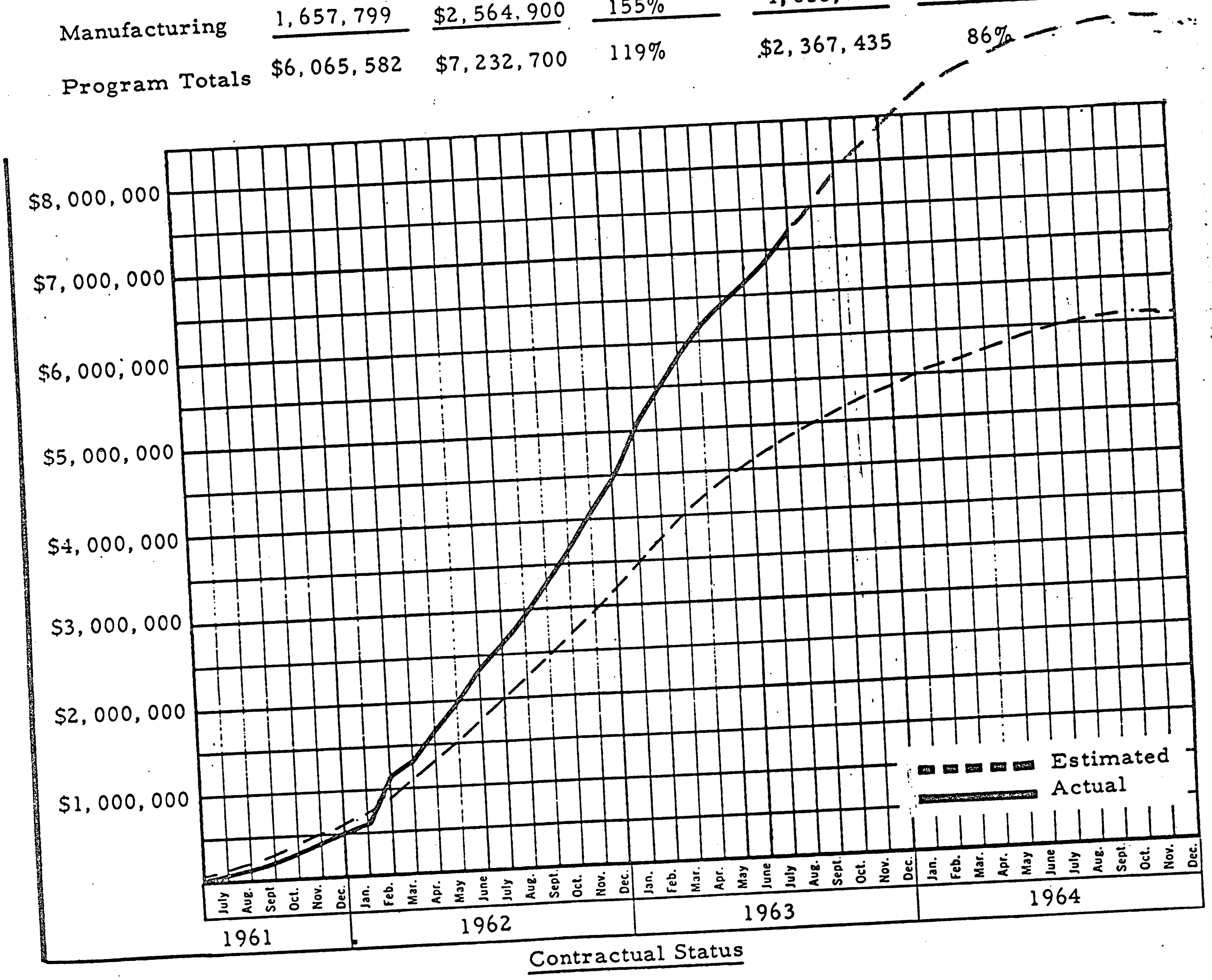
Based on the current estimates for this program, (exclusive of G&A overruns), we will be over the Target Price by $645,000, which, when we contribute profit of $344,094, will consume $300,906 or our ceiling dollars. The additional $693,000 estimated overrun in G&A will place us over ceiling by $358,618.

In addition to the $358,618 loss, the likelihood of our recovering the ceiling portion of G&A overrun ($334,382) at redetermination is not sure. You will recall that we bid the LOH program using the following rates: 20% in 1961, 14% in 1962 and 1963, and 12% in 1964. On a composite basis this estimated G&A rate would be 14.1%. Our current estimated composite G&A rate is 24.3%. The Marketing Division will utilize all the current applicable arguments to recover these dollars, but we must recognize that the Government does not have to allow these costs in view of the wide variance between our actuals and estimated G&A rates.

OH-6 PROGRAM SUMMARY
(Month Ending 9/1/63.)

Financial Status

Division	Budget	Expend. To Date	%Spent	Estimated Overrun	%Complete
Engineering	$4,407,783	$4,667,800	106%	$1,332,235	81%
Manufacturing	1,657,799	$2,564,900	155%	1,035,200	95%
Program Totals	$6,065,582	$7,232,700	119%	$2,367,435	86%



Contractual Status

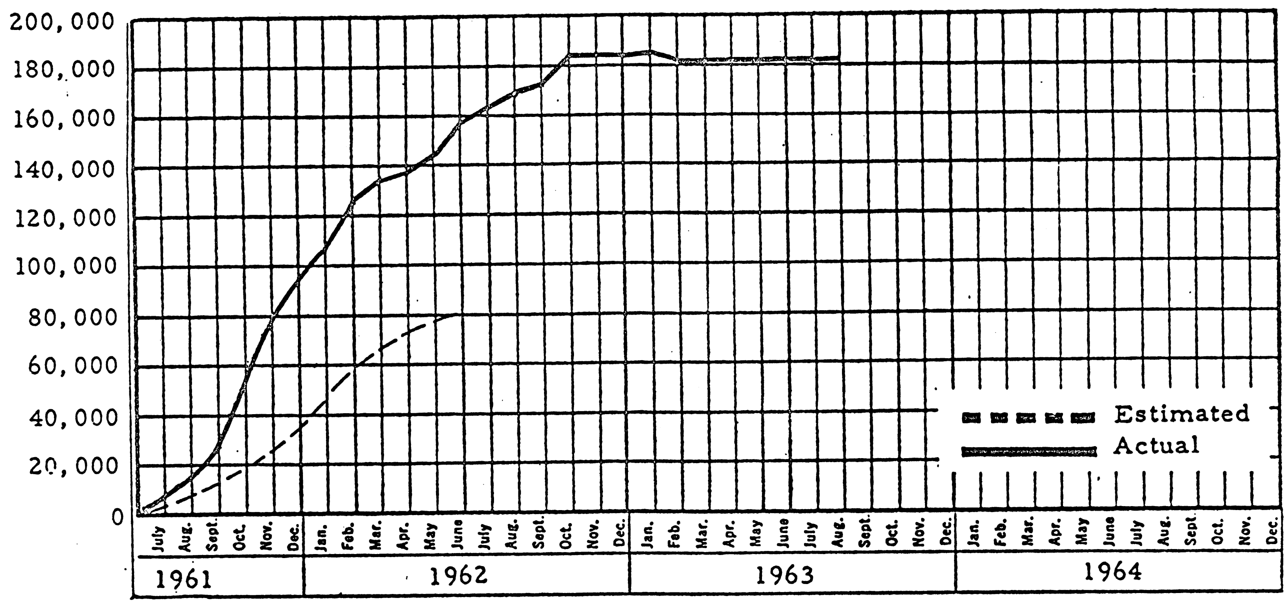
Deviation from basic contract, and action taken or planned:

Engine changes since award of Contract have resulted in additional work MJO 2471 has been opened to collect these costs. Other work performed to comply with additional FAA conditions and requirements. Additional work performed under MJO's 2472 "Low Drag Antenna" and 2473 "Gun Chargers".

WIND TUNNEL PROGRAM (MJO 2451)

Month Ending 9/1/63

Financial Status



Budget: $ 79,967 Est. Overrun (Underrun) $102,096

Spent: $182,063 228% Complete (Spent/Budget & Overrun) 100%
& Committed

Explanation of Overrun:

An investigation of this program has resulted in a compromised test schedule. The overrun now projected is based upon the shorter revised schedule. The wind tunnel program was under-estimated in the original proposal

MJO 2451 closed 1/18/63

Schedule Status

Scheduled Time Span: 52 Wks. Est. Schedule Slippage: 26 Wks.

Elapsed Time: 78 Wks. 150%

Explanation of Schedule Slippage:

- Program schedule was not realistic

Bill -- Here is a concise statement of what I have been trying to say in many of our meetings.

The company has to do what survival demands. It has to adapt to the requirements of the market, and it has to do it sooner rather than later. But mere survival is a so-so aspiration. Anybody can survive in some way or other, even the skid-row bum. The trick is to survive gallantly, to feel the surging impulse of commercial mastery; not just to experience the sweet smell of success, but to have the visceral feel of entrepreneurial greatness.

No organization can achieve greatness without a vigorous leader who is driven onward by his own pulsating will to succeed. He has to have a vision of grandeur, a vision that can produce eager followers in vast numbers. In business, the followers are the customers. To produce these customers, the entire corporation must be viewed as a customer-creating and customer-satisfying organism. Management must think of itself not as producing products but as providing customer-creating value satisfactions. It must push this idea (and everything it means and requires) into every nook and cranny of the organization. It has to do this continuously and with the kind of flair that excites and stimulates the people in it. Otherwise, the company will be merely a series of pigeonholed parts, with no consolidating sense of purpose of direction.

In short, the organization must learn to think of itself not as producing goods or services but as buying customers, as doing the things that will make people WANT to do business with it, and the chief executive himself has the inescapable responsibility for creating this environment, this viewpoint, this attitude, this aspiration. He himself must set the company's style, its direction, and its goals. This means he has to know precisely where he himself wants to go, and to make sure the whole organization is enthusiastically aware of where that is. This is a first requisite of leadership, for unless he knows where he is going, any road will take him there.

If any road is okay, the chief executive might as well pack his attaché case and go fishing, or golfing if that is the case. If an organization does not know or care where it is going, it does not need to advertise that fact with a ceremonial figurehead. Everybody will notice it soon enough.