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Background

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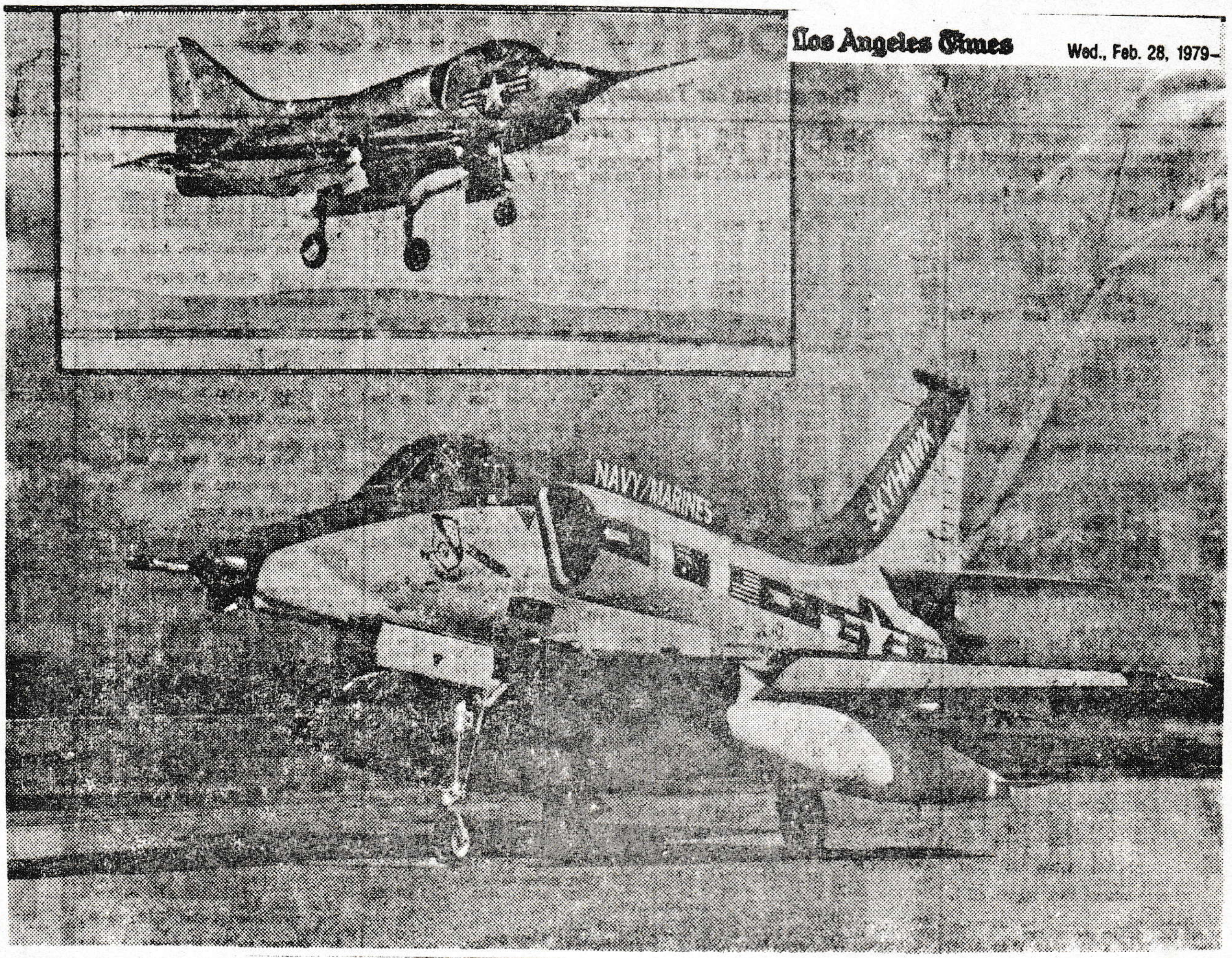

A-4 Skyhawk Finally Comes to End of Line

On June 22, 1954, a revolutionary war plane made its maiden flight at Edwards Air Force Base. This month, 25 years and 2,960 planes later, the last McDonnell Douglas Corp. A-4 Skyhawk rolled off the assembly line, ending the longest production run for a U.S. military aircraft.

The Skyhawk was the result of a McDonnell Douglas study to reduce the complexity, weight and cost of an attack aircraft without sacrificing performance. The first and the last planes were delivered to the Navy.

The single-seat bantamweight jet was designed initially as a carrier-based aircraft—its short 27.5-foot wingspan enabled the plane to be stored below deck without folding its wings.

But the tough little plane, with its ability to carry all types of tactical armament, soon was adopted by the Marines for close air support of ground forces.

For tactical missions, the Skyhawk carriers more than 9,100 pounds of armament, including air-to-air and air-to-ground missiles, bombs, rockets and guns. Its Pratt & Whitney engine can propel the plane to 700 m.p.h.

In all, 17 different Skyhawk models were produced by McDonnell Douglas—2,405 attack bombers and 555 two-seater trainers. The first 343 were produced at the firm's plant in El Segundo and the rest at the Palmdale facility.

In addition to the U.S. military, the Skyhawk has been used by the armed forces of Australia, New Zealand, Israel, Singapore and Kuwait.

Several times during its long life it seemed that production of the plane would end but a continuing program of updating its engine, navigation and weapons systems kept the durable plane in demand.

Used by the Navy's famed Blue Angels aerobatic team, pilots were so proud of the rugged plane that they distributed bumper stickers reading: "A-4s Forever."

GRUMMAN PAYOFFS
(continued from page 4)

James Bradbury, executive vice president of a unit of Gulfstream American Corp., says that now "under American Jet policies, payoffs simply aren't permitted and aren't authorized, and all personnel have been so advised."

The story of the payoffs, as told by Grumman's audit committee, begins in 1971. According to the committee, starting with "the first sale of a Gulfstream II to a foreign government, the personnel responsible for international Gulfstream II marketing engaged, either directly or indirectly, in activities raising questions as to almost every sale of a Gulfstream II to a foreign government."

It wasn't that the Grumman men initiated payoffs. They were met regularly with requests from local sales agents for "special commissions" that, it was understood, would be passed on to foreign government officials. The requests were hard to turn aside, partly because the Grumman men hadn't had much luck in selling abroad and partly because the special commissions could simply be added to the total price. They would cost Grumman nothing.

A 1971 sale to the government of Cameroun, in Africa, set the "basic pattern" for Grumman salesmen, the audit committee found. Grumman men were happy to pay "special commissions" as long as they could do it through an intermediary, as was done in the Cameroun case. Other questionable deals followed.

But by 1975, the risks were increasing. The Senate Subcommittee on Multinationals was exposing payoffs made by Gulf Oil Corp., Lockheed Corp. and others. And the SEC had begun the drive that was to uncover payments by hundreds of U.S. companies operating abroad.

In October 1975, Grumman's board adopted its first written policy on the subject, prohibiting commissions where illegal under domestic or foreign law. The policy also called for standard forms for sales-agent contracts, board approval of the contracts and other procedures.

But while the board was trying to crack down, Grumman's managers were carrying on business as usual, the audit committee said. In August 1975, Grumman agreed to sell two Gulfstream IIs to Saudi Arabia's national airline with $4.2 million in sales commissions, some going to a Saudi sales agent and the balance of $2.5 million going to an American agent who said the money would be channeled to undisclosed third parties. Grumman's top managers became concerned, both about the magnitude of the commissions and about the unidentified third parties.

At this point, according to the audit committee's report, which is vigorously denied by Page Airways, Page's men suggested that the deal be restructured: The planes would be sold to Page, then to a Liechtenstein corporation, then to the Saudi airline.

The Page men told Grumman's top managers the Liechtenstein corporation was an established aircraft-distribution company; in fact, it had just been set up and served no other purpose in the deal but as a conduit for the $2.5 million, Grumman's audit committee charged.

Restructuring the transaction went on from September through December 1975. Approval of the restructuring was sought by Grumman salesmen from John Carr, Grumman's vice president for administration, and Mr. Bierwirth, the chairman. Even though Grumman's board in October issued its policy banning such payments both executives approved the restructuring, the audit committee said.

Outside Directors Form Grumman's Audit Panel

The Grumman board's audit committee, which is responsible for the critical report on overseas payments, is composed entirely of outside directors.

The chairman of the audit committee is Kenneth Axelson, who is also a senior vice president of J.C. Penney Co. The other members of the committee are Archie Albright, vice chairman of Drexel Burnham Lambert Group; Charles Dunbar, retired chairman of Discount Corp. of New York; Clyde Ferguson, a Harvard law professor; and Ellis Phillips, a former Columbia law professor.

Top management's approval of use of the Liechtenstein conduit was a critical action at Grumman. As the audit committee put it in its report:

"Many Grumman sales personnel clearly failed to perceive the 1975 and subsequent directives as mandating a prompt and immediate change in conduct. Apparently contributing to such attitude was the participation of Grumman Corp.'s senior management in the restructuring of (the) Saudi Arabian . . . transaction virtually contemporaneously with the October 1975 directives."

Grumman men then seemed to go on a special-commission spree. They sold a Gulfstream II to Nigerian Airways in 1976 with the understanding that part of the $425,000 commission would be passed on to Nigerian government officials, the audit committee said. The question of whether the 6% commission was excessive was brought to Mr. Bierwirth, who decided against trying to cut it. Grumman salesmen also paid commissions on deals in Oman in December 1975 and in Bahrain in 1977 in violation of the Grumman board's policy.

A Venezuelan Deal

Company lawyers trying to enforce the Grumman anti-payoff policy got nowhere. In one instance, Grumman's salesmen in 1977 had lined up a sale of a used Gulfstream II to a Venezuelan company, with part of the Venezuelan sale agent's commission to go to an employe of the purchaser. When a Grumman lawyer found out about that, he said it would violate company policy. The salesmen restructured the deal, arranging to sell the plane to a Panamanian company controlled by the Venezuelan sales agent for resale to the ultimate purchaser, the audit committee reported.

Part of the 1975 policy statement by the Grumman board called for disclosure to a foreign-government purchaser that a sales agent had been retained. In selling Gulfstream IIs, the Grumman American subsidiary ignored this rule, at least until some time last year. On one occasion, in mid-1977, this failure to comply was "in defiance of an express direction" of Grumman's general counsel, Lawrence Pierce, who had learned about the transaction, the audit committee found.

Grumman men also kept directors in the dark. While the Grumman American unit did submit contracts with sales agents to the board, as required, "information as to the questionable nature of the various transactions was consistently withheld," the audit committee found. The committee added: "As late as June 1977, a senior vice president specifically represented to the board, 'I will state that in the marketing of the Gulfstream II overseas, we haven't done anything, that will be embarrassing.' "

In 1977 the Grumman audit committee began its investigation, hiring Cahill, Gordon & Reindel as outside counsel. The investigation evidently met with resistance and ridicule. Corwin "Corky" Meyer, president of the Grumman American subsidiary, according to the audit committee, "expressed belief that this committee's investigation was a needless intrusion upon and an interference with Grumman American's sales activities."

Page Airways, with minor exceptions, refused to cooperate with the Grumman committee, the panel said. A company that had bought Gulfstreams and resold them to Saudi Arabia and Morocco gave almost no cooperation, the managing director explaining that he wasn't interested in becoming involved in "the American investigatory circus." Foreign sales agents clammed up, and committee representatives trying to interview a Liechtenstein bank officer got a lecture on bank-secrecy laws instead.

"Unrealistic Policies"?

Grumman's audit committee concluded that "various (company) personnel responsible for foreign sales apparently acted in the belief that Grumman had to be saved from what they perceived to be unrealistic policies and procedures which would put Grumman at a competitive disadvantage. Even during the committee's investigation, some personnel were still attempting to circumvent the board's directives and to structure transactions to mask such circumvention."

In the crackdown that has followed, several have lost their jobs, though Grumman won't say how many. Charles Vogeley, Grumman American senior vice president for sales, resigned last August. Mr. Meyer, the president of Grumman American, "abdicated his responsibility" for enforcing Grumman's 1975 anti-payoff policy, the audit committee charged. Mr. Meyer left Grumman early last year, though for reasons other than the payoff problems.

Those executives who have come under criticism are resentful. Mr. Vogeley says he was "never given a fair chance" to rebut charges against him; he declines further comment. Mr. Meyer says there are "grave inaccuracies in the audit-committee report, and had the committee interviewed me directly, I feel we could have set the record straight."

Page's Reply

Page Airways is also upset. In a letter to Grumman, a Page attorney blasted the audit committee's report.

Grumman's audit report is filled with "inaccuracies . . . too numerous to reference and explain," the Page attorney wrote. "Your report appears to be a frantic attempt to dignify negative surmise, rumors and gossip, all for the purpose of painting
(continued on page 6)

Pentagon Seeks Some of the Arms Canceled by Iran

Wall Street Journal
FEB 28 1979

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—The Carter administration asked Congress for permission to purchase for U.S. forces some of the ships, missiles and planes Iran has decided it wouldn't buy from the U.S.

The administration wants to buy two of the four destroyers Litton Industries Inc. was building for Iran, 55 of the 160 General Dynamics Corp. F16 fighters, 150 of the 400 Hughes Aircraft Co. Phoenix, air-to-air missiles, 208 McDonnell Douglas Corp. harpoon antiship missiles and 258 General Dynamics standard ship-launched antiaircraft missiles.

The weapons were among those ordered by Shah Mohammad Reza Pahlavi, Iran's former ruler. After the shah was driven from power last month, Iran cancelled about $7 billion of the $11.56 billion of arms the shah had on order.

Revised Budget Request

The administration made the proposal in the form of a revised supplemental budget request for the current fiscal year, which started Oct. 1. The new request is for $2.16 billion, the same as a pending supplemental before Congress, but the list of what the Pentagon wants to buy with that money has been revised to include the Iranian equipment.

To make way for the Iranian weapons, the administration dropped a $194 million patrol frigate from the pending supplemental along with 42 smaller requests for equipment.

Altogether, the U.S. plans to purchase $1.3 billion of the weapons Iran had ordered. This includes $460 million for the 55 F16s, $628 million for the destroyers and the balance for missiles. The Navy already had planned to purchase one guided-missile bearing destroyer of the Spruance class this year but work hasn't begun. By taking two of the four ships ordered by Iran, the Navy would be able to get them faster because the Iranian ships are nearing completion. The first destroyer was scheduled for delivery to Iran in 1980 and the second in 1981.

Plan Called a "Bail-Out"

A Defense Department official said the Pentagon decided to ask for permission to purchase the Iranian weapons to get them more quickly and more cheaply than by buying them later. However, one Capitol Hill staffer called the revised purchase plan a "bail-out" designed to aid companies that otherwise would be hurt by the Iranian cancellations.

In fact, a major beneficiary of the action would be the new Islamic government of Iran, which would receive a $350 million Pentagon refund on work Iran had paid for in the form of monthly progress payments. The money would go into a trust fund and presumably be used to pay for weapons Iran still has on order. However, Iran still would have to pay certain contract-termination costs from a $500 million trust fund it already has established for that purpose.

After Iran canceled its order for 160 F16 fighters, both Egypt and Israel asked the U.S. for permission to buy some of the planes. But the U.S. hasn't decided whether to make the sales.

Grumman Panel Finds Payoffs Continued Despite Board's Policy

FEB 28 1979
Wall Street ~~Journal~~

Managers Ignored '75 Stand: Directors Get Tougher, But Chairman Is Retained

By WILLIAM M. CARLEY
Staff Reporter of THE WALL STREET JOURNAL

In the past three or four years, many corporations have been jolted by disclosures that they were making payoffs on overseas sales, and the companies have gone through further difficulties attempting to put their houses in order. Few, however, have endured the trauma that Grumman Corp. has been going through.

In 1975, with news breaking about investigations of companies for improper payments abroad, Grumman's board adopted its first policy prohibiting such payments. Since then, the directors have issued orders in an attempt to put the basic policy into practice.

But many of the company's managers had been involved in payoffs since 1971, and they weren't about to change their ways, according to a special report of the board's audit committee that was filed with the Securities and Exchange Commission. During the past three years, these managers have been ignoring the rules against payoffs, the committee found. When they couldn't ignore the rules, the panel added, they withheld information from the board, circumvented the rules by camouflaging questionable payments, and in one instance defied orders of Grumman's special counsel.

From Top to Bottom

The maneuvers have involved people ranging from salesmen out in the field all the way to the top. According to the report, even John Bierwirth, chairman and chief executive, approved restructuring a transaction in an apparent effort to hide a questionable payment.

Grumman, at least on the issue of such payments, has been a corporation nearly out of control. In the report, completed last month, the audit committee stated:

"Disobedience of the instructions of the board, in some cases clearly willful, was so frequent as to raise serious questions concerning the ability of the board to supervise Grumman's business conduct effectively." At a later point, the committee added, "This company-wide lack of response to the policies and directives of the board created an intolerable situation which cannot be condoned and must not continue."

Now the board has gotten tougher. Contracts of several sales consultants involved in payoffs have been terminated, and some sales commissions have been held up. In recent months, a number of Grumman executives have been fired. With something like "trials" of Grumman men under way or about to get under way, more may get the ax. As one insider puts it, "A lot of careers are being smashed."

One career that isn't being smashed is that of Mr. Bierwirth, the chairman and chief executive. The audit committee had some harsh words for Mr. Bierwirth, but earlier this month the board expressed confidence in his "personal and business integrity."

The executives who have been criticized are clearly bitter. Joseph Gavin, the president, whom the report didn't accuse of involvement, takes a different view. He terms it "regrettable that all the people who put men on the moon, built superior aircraft and developed technology for new energy sources must accept this cloud on their company's reputation." But the cloud, he concedes, results "from practices and attitudes so properly criticized in the audit-committee report."

The Gulfstream II

Based in Bethpage, N.Y., Grumman produces jet fighters for the Navy, fire trucks and buses for municipalities, solar-energy devices and other products. The audit committee's report, however, mainly deals with sales of the Gulfstream II, a small jet used by corporations and foreign governments for their top officials. The Gulfstream II, which sells for about $6 million, was produced and sold by a Grumman subsidiary, Grumman American Aviation Corp. Last September, Grumman Corp. sold the unit to American Jet Industries Inc. In exchange, Grumman received cash and $20.5 million of American Jet preferred stock. It will also get fees for Gulfstreams sold after Jan. 1, 1980—fees that could reach $15 million.

Grumman men – some in Grumman Corp., some in Grumman American and some in Grumman International, another subsidiary – were all involved in selling Gulfstream IIs to foreign governments. In some cases, however, an airplane was sold first to Page Airways Inc., based in Rochester, N.Y., which generally outfitted the plane with navigation equipment and interior furnishings and which then resold the plane to the final customer.

The SEC is suing Page in federal district court in Rochester, N.Y., for alleged failure to disclose participation in the payoffs—an allegation Page has strongly denied. Page has also issued a "general denial" of the allegations made against it in the Grumman audit committee's report.

As for Grumman, the SEC brought a civil suit in federal district court in Washington alleging concealment of payoffs. Grumman settled that case without admitting or denying the allegations. The Justice Department filed a criminal suit against Gulfstream American Corp., the renamed American Jet Industries, in federal district court in Washington. That suit also alleged concealment of payoffs. Gulfstream American pleaded guilty and was fined $120,000. Grumman Corp. agreed to pay the fine since it owned about 80% of the Gulfstream unit when the violations occurred.

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Brizendine introduced special guest Edward Heinemann, 70, a self-taught engineer who directed the design of the Skyhawk as chief of engineering at the one-time Douglas military production facility at El Segundo.

Calling Heinemann "the father of the A-4," Brizendine said, "Nobody thought he could do it, but he did."

Heinemann, who joined Douglas in 1927 as a draftsman and retired in 1960 as vice president of engineering for combat aircraft, recalled the birth of the Skyhawk in a separate interview.

"It was a big job," he said. "The Navy specifications called for a low-cost, high-performance jet attack aircraft under 30,000 pounds for carrier use.

"I locked myself in a room at El Segundo all day and finally came up with a design. I took it to Washington and sold it."

Heinemann's answer was the single-seat, single-engine A-4, with a wingspan of only 27.5 feet, permitting it to be stored below decks without folding the wings. Its empty weight is about a third of the Navy specification.

In spite of its small size, the Skyhawk can carry almost its own weight in armament, including guns, missiles, rockets and nuclear weapons. Its speed is in the high subsonic range, about 700 mph.

The program on the Douglas flight line at the airport included the delivery of the 2,960th and last of the bantam assault aircraft to Marine Attack Squadron 331, based at Cherry Point, N.C.

The highly decorated A-4M attack bomber, one of 17 different Skyhawk models produced by Douglas since 1953, was marked with the flags of seven nations operating the aircraft and the crest of the Navy's Blue Angel precision flight demonstration team.

The lunch-hour ceremony was attended by hundreds of production workers and retired personnel formerly associated with the Skyhawk program.

In 1961, manufacture of Skyhawk parts was relocated from El Segundo to Long Beach and the final assembly line was established at Palmdale. Company spokesmen said the Long Beach plant will continue to make spare parts for the durable aircraft into the 1980s.

In addition to Brizendine and Heinemann, ceremony officiants included Vice Adm. Robert P. Coogan, commander of the U.S. Pacific Fleet Naval Air Force, and Maj. Gen. William R. Maloney, commander of the Third Marine Aircraft Wing, El Toro.

"We are saddened by the fact that this is the last Skyhawk," Maloney said in accepting delivery of the multi-purpose midget bomber.

"Eventually Heinemann's hot rod will be retired. But it won't be for many more years of earning the respect of Navy and Marine pilots."

The latest version of the A-4 delivered Tuesday can carry a payload of more than 9,100 pounds for a maximum combat takeoff weight of 25,000 pounds.

Heinemann said the Skyhawk was the last of his series of 20 Navy designs for Douglas, including the AD Skyraider, conceived one night in a Washington hotel room, the F4D Skyray, and the experimental Skyrocket, a forerunner of today's spacecraft.

The aircraft was towed into view from a building adjacent to the flight line as historical details of the Skyhawk program were narrated by Robert F. Canaday, Douglas director of international government marketing.

Brizendine and Heinemann presented log books for the last A-4 to Capt. E.W. Melvin, Navy plant representative at Douglas, who turned them over to Lt. Col. M.R. Snedecker, commander of Marine Attack Squadron 331. A Marine Corps band and color guard participated.

Three other Skyhawks were parked on the ramp as a backdrop for the ceremony. One was an A-4 in the colors of the Navy's Blue Angels, one was a TA-J two-place trainer version and the third was another like the delivery model.

In addition to the Blue Angels, Skyhawks currently are assigned to the Training Command, combat readiness squadrons and utility squadrons of the Navy and to Marine attack squadrons and reserve groups.

In foreign service, versions of the midget attack aircraft are in the active inventories of the Royal Australian Navy, Royal New Zealand Air Force, Israeli Air Force, Argentine Navy and Air Force, Singapore Air Defense Command and the Kuwait Air Force.

The end of Skyhawk production was threatened on more than one occasion by Department of Defense budget cuts. Each time, defense requirements for the aircraft's versatility and performance produced additional orders.

IBM Gets Navy Job Totaling $36.2 Million For Helicopter System

Wall Street Journal FEB 28 1979

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – **International Business Machines Corp.** received a $36.2 million Navy contract providing funds for full-scale development of the Lamps antisubmarine warfare helicopter system.

The ITT-Gilfillan subsidiary of **International Telephone & Telegraph Corp.** was awarded a $16.5 million Navy contract for radar equipment.

Vought Corp. received a $12.9 million Navy contract for TA7H aircraft.

Raytheon Co. was given a $11.3 million Navy contract for sonobuoys.

FMC Corp. got a $9 million Army contract for modernization equipment for M113 armored troop carriers.

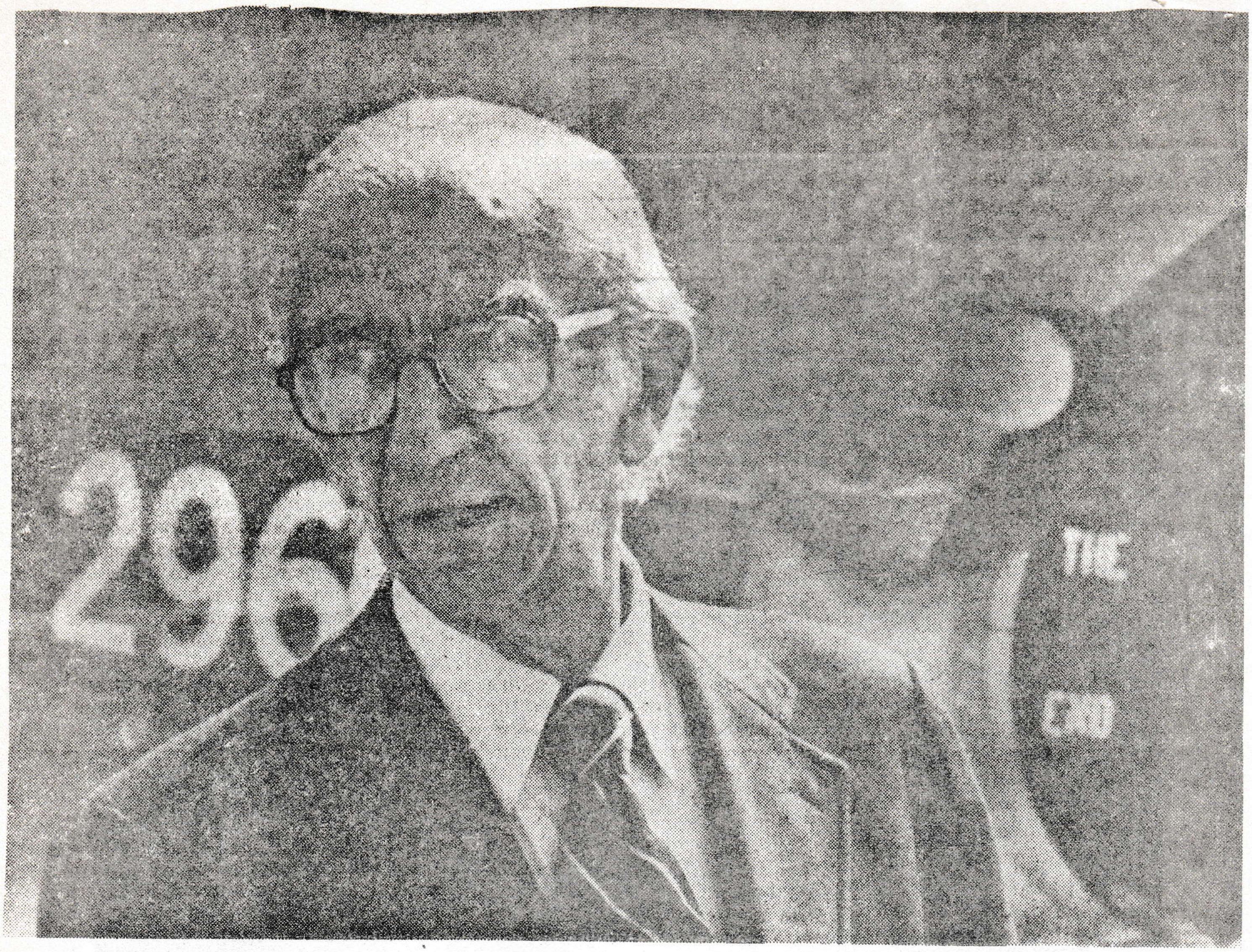
Hughes Aircraft Co. received a $4.7 million Navy contract for signal-processing equipment related to the Phoenix missile.

Ticor Inc. received a $4.4 million Navy contract for engineering services.

Hitco was given a $4.4 million Navy contract to make plastic bow domes for Trident submarines.

General Electric Co. got a $3.5 million Navy contract for sonar equipment.

Texas Instruments Inc. received a $3.1 million Navy contract for engineering development work on the Harm anti-radar weapon systems.



— Staff Photos by TOM SHAW

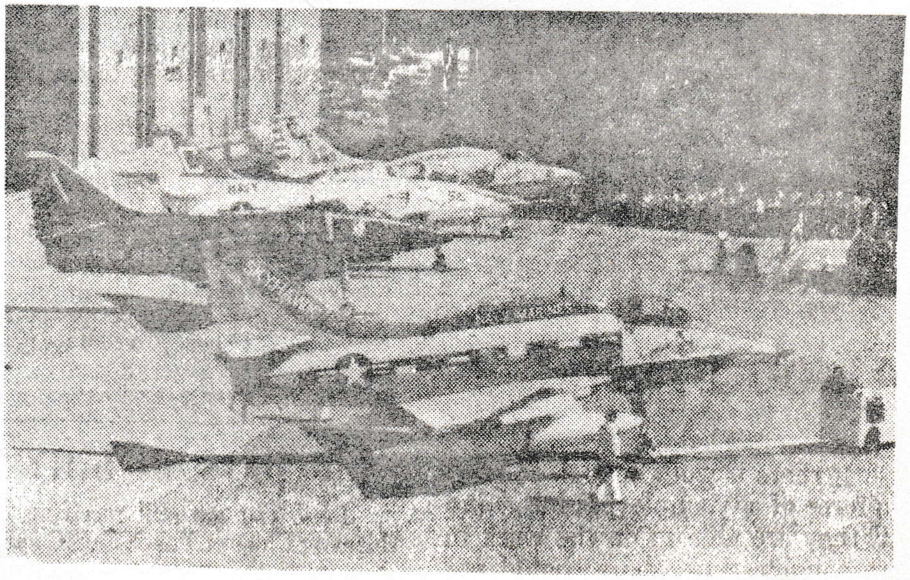
EDWARD HEINEMANN, the engineer who directed design of Skyhawk planes below, stands in front of the last of the fighter craft, which came off the assembly lines in a special ceremony Tuesday.

Long Beach Independent

Skyhawk era ends at Douglas Aircraft

By Herb Shannon
Aerospace Editor

FEB 28 1979



Military and civilian brass saluted a milestone in aviation history Tuesday at Long Beach Airport in ceremonies marking the end of 26 years of continuous production of the A-4 Skyhawk series of jet aircraft.

"This is the end of an era," Douglas Aircraft Co. President John Brizendine told Navy and Marine Corps officers and Douglas officials at the ceremony marking the production longevity record, unmatched in U.S. military aviation.

It is the end of an era, Brizendine said, "not only because we are delivering the last Skyhawk, but for those many here who gave America (military) superiority in the air."

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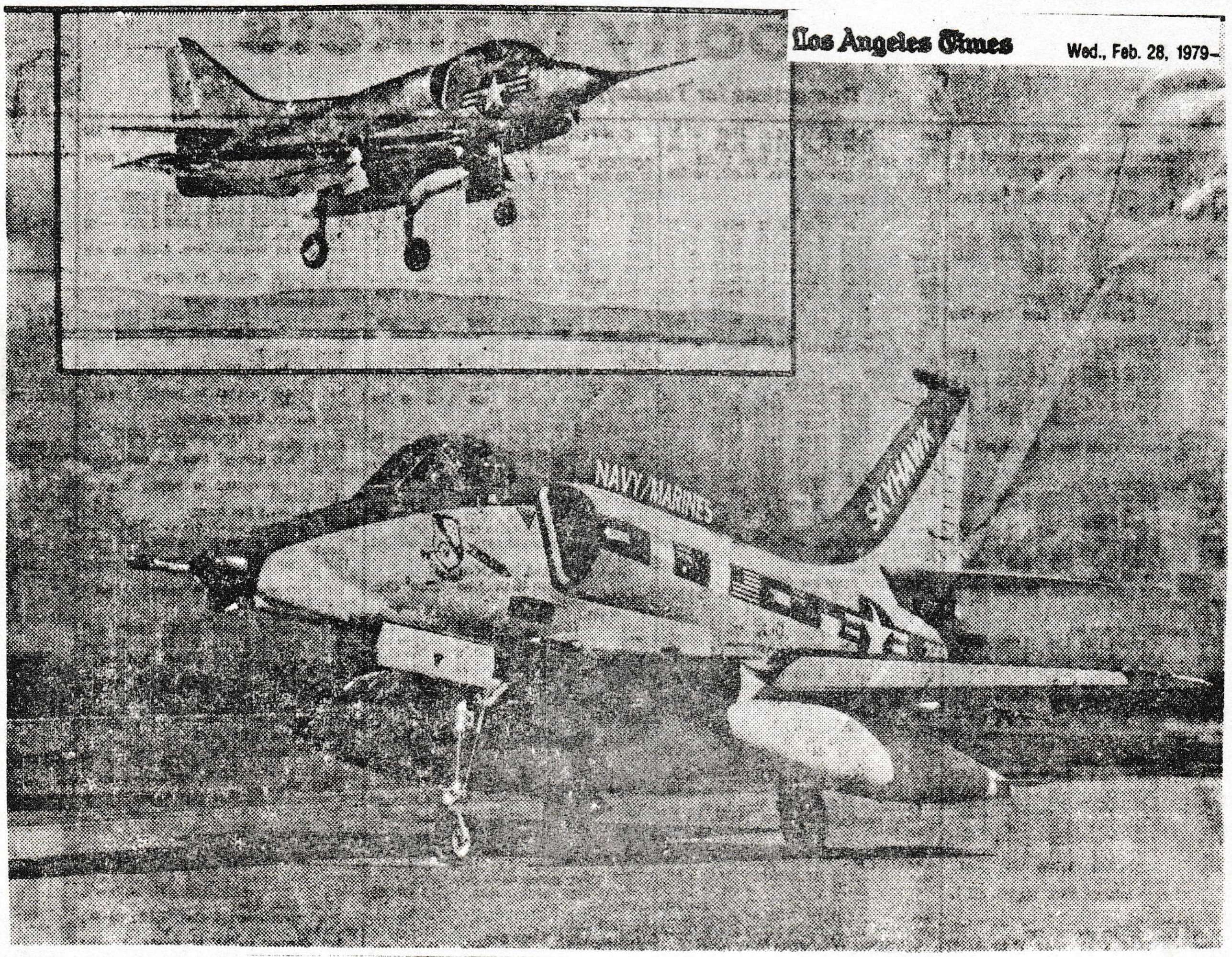

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