Operative Earnings (after charges for Research, Selling Expense, and other costs shown) were negative for the 1974 period. The same three months this year show an Operative Earnings loss of $(413)M, equivalent to 38.3% of sales.

It should be recognized that the charge to the 3200 for Research Expense is an accounting distribution rather than the actual expense incurred on the 3200, and that "New Gun Costs" incurred on 3200 projects are not reflected in costs charged to the model. As shown in Table I, if these costs were fully taken into account, Operative Earnings would be reduced further.

The preliminary #4 Forecast data for calendar 1976, shown in Table I, are based on forecast sales of 15,150 M/3200's at the higher price levels forecast and include the "Competition" grade guns scheduled for next year. Factory Cost data include anticipated increases in material prices and payroll rates as well as the wage increase made effective in August of this year. The Forecast also assumes that alteration of guns returned for modification will be essentially complete by June 30, 1976. For purposes of this review, forecast data are shown only for the 2nd and 3rd calendar Quarters and for the total year 1976. 83

Forecast #4 data indicate that Factory Margin before Alteration Costs will improve to something over 8% of sales, largely as the result of higher selling prices and increased volume. Margin after Alteration Costs also will improve, particularly after the 2nd Quarter when this work is forecast to end. For the entire year, the Factory Cost of guns sold is expected to be carrying some $395M of Alteration Cost (including applicable overhead).

The forecast improvement in Factory Margin, however, will not be sufficient to yield positive Operative Earnings in either Quarter or for the Total year, even if Alteration Costs could be eliminated next year.

As indicated, if actual M/3200 Research expense and "New Gun Costs" forecast for next year were taken into consideration, the Operative Earnings loss indicated for next year would be substantial.

In summary, the data in Table I indicate that:

a) While Factory Margin will improve and the adverse effect of Alteration Costs is expected to diminish,

b) The M/3200 will not show positive Operative Earnings next year.