

T-AIM 9X ADJUSTMENT OF PRICE FOR QUANTITY AND ESCALATION

1.0 Introduction. The parties agree to the pricing in the LRIP Pricing Table (LPT) for Lot options 1, 2 and 3 to this contract. The parties also agree to the use of a Procurement Price Commitment Curve (PPCC) for production Lots 4 through 7 as defined in Paragraph 2.4 below. The purpose of this clause is to:

- Define the LRIP requirements for option pricing for the exercise option quantities
- State the specific requirements associated with the PPCC for Lots 4 through 7
- Identify an Economic Price Adjustment clause to protect against abnormal fluctuations in labor and material costs.

2.0 LRIP Pricing Table (LPT).

2.1 Definition. For the purposes of this clause, the LPT requirement is the total procurement cost of the Units divided by the number of units per lot.

2.2. LRIP Pricing Table Requirements. The Seller's LPT Requirements are stated in the LRIP Pricing Table (LPT). The LPT Requirement covers any order quantity associated with an Order Quantity Range as indicated in the LPT. The individual LPT Requirements are subject to adjustment due to Economic Price Adjustments, and Buyer-caused Engineering Change Proposals in accordance with this request.

The Seller's LPT requirements for the three points are: _____(FY01\$) for Lot 1 (150 units); _____ (FY 02\$) for Lot 2 (250 units); and _____(FY 03\$) for Lot 3 (600 units). The Seller's LPT requirement for Lot 3 (600 units) expressed in constant GFY 96\$ is _____.

2.3 Reserved.

2.4 PROCUREMENT PRICE COMMITMENT CURVE (PPCC)

The Seller and the Buyer agree to the use of a Procurement Price Commitment Curve (PPCC) to determine pricing requirements for production Lots 4 through 7. The PPCC here under will be based on the following the calculation: $Y = AX^B * PCI$ (See paragraph 2.5 for definition of variables) and shall project costs for out year production Lots 4 through 7. Adjustments to the PPCC are allowed for: changes in quantity; Economic Price Adjustment; and Buyer-caused changes under the "Changes" clause. This PPCC is a commitment by the Seller to specific unit prices for production units to be procured in Lots 4 through 7. The specific PPCC derived unit prices for each of Lots 4 through 7 are set forth in paragraph C below and are defined to be identical in terms of performance and configuration to the LPT units used for LRIP Lot 3. This PPCC clause or a substantially similar clause will be in effect and placed in every contract awarded for lots 4 through 7.

The Buyer anticipates awarding follow-on, firm fixed price (FFP) contract(s) for Lots 4 through 7. These contract(s) may be on a multi-year basis, a base year with options, or some other basis. To that

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end, the Buyer anticipates issuing a solicitation to the incumbent Seller for Lots 4 through 7 not later than one-hundred twenty (120) days after the exercise of Lot 3 of this contract.

A. If the Buyer issues a solicitation(s) for and purchases Lots 4 through 7 and provided the Seller submits a proposal(s) for Lots 4 through 7, in response to the solicitation(s), that meets or improves on the prices in the PPCC, the following actions will occur. (However, the decision not to issue a solicitation for or purchase Lots 4 through 7 is dependent on the buyer receiving a contract from the US Government for this product, the US Government has not specified a change eliminating the Unit, and is final and shall not be subject to dispute by the Seller under the "Disputes" Clause or any other clause of the contract and shall not be appealable to any Board of Contract Appeals, Claims Court, or any other Court. Nor shall the decision create any cause of action under or related to the contract in any court.)

(1) Provided the Seller's performance in the areas of cost, schedule and quality is acceptable through the decision date for contract award, the Buyer will issue sole source contracts to the Seller for all Units covered by the solicitation(s) for Lots 4 through 7.

(2) The Buyer will consider waiving the requirement for certified cost or pricing data and making the above awards for Lots 4 through 7 on the basis of price analysis.

(3) The Seller will retain configuration control allowing him the opportunity to make changes that do not affect the requirements found in the system specification or cause a need for requalification of the Unit, missile AUR or other missile subsystems.

(4) The Buyer may continue to use the Seller for the Unit maintenance and repair.

B. If the Seller submits a proposal(s) for Lots 4 through 7, in response to the solicitation(s), that exceed the prices in the PPCC, the Seller will be required to submit certified cost and pricing data. In addition, the Buyer reserves the right to invoke any or all of the following:

(1) The Buyer may require the contractor to deliver to the Buyer, at no additional cost, a technical data package suitable for procurement by the Buyer. Further, the Buyer will have the right to use this data package for procurement purposes.

(2) The Buyer will have the option of increasing in-plant oversight.

(3) The Buyer may choose to release a competitive solicitation(s) for Lots 4 through 7.

C. The following are the Seller's PPCC derived unit prices for Lots 4 through 7:

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				Then Year \$	GFY96 \$
Lot 4	600 missiles	LPT* :	FY03	\$ _____	\$ _____
Lot 5	600 missiles	LPT* :	FY04	\$ _____	\$ _____
Lot 6	600 missiles	LPT* :	FY05	\$ _____	\$ _____
Lot 7	600 missiles	LPT* :	FY06	\$ _____	\$ _____

*Note: The same LPT Unit descriptions in paragraph 2.1 for Lots 2 and 3 apply to Lots 4 through 7.

2.5 Procurement Price Commitment Curve (PPCC) Equation. The following equation shall be used to project unit prices for lots 4 through 7. The equation in GFY96 \$ (i.e. before adjustment for escalation) must fit the Lot 3 GFY 96 \$ value for 600 units (see paragraph 2.2) assuming 400 prior units had been produced (2900 if the unit is ASRAAM common).

$Y = AX^B * PCI$ where:

- Y = Lot Average Unit Cost (Then Year Dollars)
- A = Theoretical 1st Unit Cost (GFY96\$)
- X = True Lot Midpoint
- B = Coefficient of the Price Reduction Curve
- PCI = Predicted Composite Index (Table 5)

The True Lot Midpoint Equation is as follows:

X = where:

- X = True Lot Midpoint
- L = Last Unit of Lot
- F = First Unit of Lot
- B = Coefficient of Price Reduction Curve

3.0 Economic Price Adjustment (EPA).

The purpose of this clause is to provide the means for either upward or downward adjustments to the LPT Requirements in paragraph 2.2 for LRIP Lot 1, LRIP Lot 2 and LRIP Lot 3 and to the PPCC for Lots 4 through 7 due to abnormal fluctuations in labor and material costs. This adjustment shall also apply if the Buyer determines a program slippage is beyond the control of the Seller.

Adjustments will also be made to the PPCC for Lots 4 through 7 (see paragraph 2.4).

3.2 The following indices will be used as a standard measurement in this clause:

<u>Category</u>	<u>DRI/CIS Index</u>
Labor	1. AHE3761LNS - AVE HOURLY EARNINGS, MISSILES, INCLUDING LUMP SUM WAGES
Material	2. A simple average of PPI367NS - ELECTRONIC COMPONENTS (MACHINERY AND EQUIPMENT) and WPI10 - METAL PRODUCTS

If any of the above indices are discontinued, or the method of calculating the indices changes, the parties hereto shall agree on an appropriate substitute.

3.3 For the purposes of this clause, it is agreed that the LPT Requirements for LRIP Lots 1 through Lot 3 and the PPCC for Lots 4 through 7 are subject to the following:

3.3.1 The labor category (Table 3) will be weighted at 30% to calculate a composite escalation index.

3.3.2 The material category (Table 4) contains the simple average of the two material indices listed in paragraph 3.2 and will be weighted at 70% to calculate the composite escalation index.

3.4 The following indices and Table values and formulas will be utilized as specified in paragraph 3.6.

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First Quarter '96 DRI/CIS Indices

Table 1: AHE3761LNS

CY 1996:	19.268
CY 1997:	20.020
CY 1998:	20.853
CY 1999:	21.740
CY 2000:	22.642
CY 2001:	23.640
CY 2002:	24.651
CY 2003:	25.714
CY 2004:	26.867
CY 2005	28.073
CY 2006	29.272
CY 2007	30.531
CY 2008	31.844

Table 2: Simple Average of
PPI367NS and WPI10

CY 1996:	1.170
CY 1997:	1.181
CY 1998:	1.199
CY 1999:	1.222
CY 2000:	1.244
CY 2001:	1.262
CY 2002:	1.279
CY 2003:	1.301
CY 2004:	1.325
CY 2005	1.349
CY 2006	1.376
CY 2007	1.403
CY 2008	1.431

Note: Table 3 and 4 indices are normalized to base year CY96

Table 3: AHE3761LNS

CY 1996:	100.000
CY 2002:	127.938
CY 2003:	133.454
CY 2004:	139.438
CY 2005	145.698
CY 2006	151.920
CY 2007	158.454
CY 2008	165.269

Table 4: Material Simple Average

CY 1996:	100.000
CY 2002:	109.316
CY 2003:	111.197
CY 2004:	113.248
CY 2005	115.299
CY 2006	117.607
CY 2007	119.915
CY 2008	122.308

Table 5

Predicted Composite Index (PCI)

CY '96: 100.00

CY '02: (CY '02 Table 3 value x .30) + (CY '02 Table 4 value x .70) = 114.903

CY '03: (CY '03 Table 3 value x .30) + (CY '03 Table 4 value x .70) = 117.874

CY '04: (CY '04 Table 3 value x .30) + (CY '04 Table 4 value x .70) = 121.105

CY '05: (CY '05 Table 3 value x .30) + (CY '05 Table 4 value x .70) = 124.419

CY '06: (CY '06 Table 3 value x .30) + (CY '06 Table 4 value x .70) = 127.901

CY '07: (CY '07 Table 3 value x .30) + (CY '07 Table 4 value x .70) = 131.477

CY '08: (CY '08 Table 3 value x .30) + (CY '08 Table 4 value x .70) = 135.196

CY '96 DRI/CIS AHE3761LNS value

$$+ \frac{\text{CY 'xx actual simple average PPI367NS/WPI 10 value} \times .70}{\text{CY '96 DRI/CIS simple average PPI367NS/WPI 10 value}}$$

Step 2

Take the answer from above and multiply it by 100

where:

the CY 'xx actual average value = (the sum of the actual values for months 1 - 12 for year xx)/12, calculated to three decimal places

the CY 'xx actual simple average PPI367NS/WPI10 = (CY 'xx actual average PPI367NS + CY 'xx actual average WPI10)/2.

3.5 Economic Price Adjustments for the LPT Requirement for LRIP Lots 1 through 3 and for Lots 4 through 7 will be invoiced at the time of final billing; and only after the final Calendar Year data for each of the paragraph 3.2 indices become available for which an economic adjustment shall be accomplished; and only if the actual composite value for a given year, calculated in accordance with Table 6, exceeds by more than 4% or is more than 3% less than the predicted Table 5 composite Index value.

3.5.1 For the purposes of this clause, the final Calendar Year data is defined as the first publication of the December value for the indices stated in paragraph 3.2 above for the year by the Bureau of Labor Statistics.

3.5.2 For the purposes of this clause, the midpoint of effort occurs in Calendar Year 2002 for LRIP Lot 1; Calendar Year 2003 for LRIP Lot 2; Calendar Year 2004 for LRIP Lot 3; Calendar Year 2005 for Lot 4; Calendar Year 2006 for Lot 5; Calendar Year 2007 for Lot 6; and Calendar Year 2008 for Lot 7. (Subject to Buyer approval, the Seller can propose a different midpoint of effort under this clause with the proposal.)

3.5.3 Within thirty calendar days after the paragraph 3.2 indices become available for the midpoint year of LRIP Lot 1, LRIP Lot 2, LRIP Lot 3, Lot 4, Lot 5, Lot 6, and Lot 7 contracts, should a contract be awarded, the Seller shall submit to the Buyer, its economic price adjustment calculations, made in accordance with paragraph 3.6 below. Even if the calculations establish that no adjustment to the LPT Requirement shall be made, the calculations shall still be submitted.

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3.5.4 In the event the Seller does not submit the calculations required by paragraph 3.5.3, the Buyer may make the EPA calculations in accordance with paragraph 3.5. If the conditions of paragraph 3.5 are met, the Buyer shall adjust the LPT Requirements accordingly.

3.6 Calculations: Economic adjustment amounts for LRIP Lots 1 through 3 and Lots 4 through 7 will be calculated as follows:

$$\text{Formula 1: } \text{CPA} = (\text{ACI} - \text{PCI}) / \text{PCI} \times \text{LPT}$$

where CPA = Composite Price Adjustment
PCI = Predicted Composite Index (Table 5)
ACI = Actual Composite Index (Table 6)
LPT = LPT Requirement

3.6.1 LPT adjustment calculations shall be made as follows:

The Seller shall calculate the ACI for the midpoint of effort year in accordance with Table 6. The Seller shall then see if the ACI falls within the range (plus 4% or minus 3%) for that year, no adjustment to the AUPC will occur, but the Seller shall submit this calculation in accordance with paragraph 3.5.3. If the ACI is outside the range for the midpoint year, then the Seller shall calculate the CPA in accordance with Formula 1 under this paragraph.

If the ACI is greater than the PCI by more than 4%, the CPA represents an upward adjustment to the LPT Requirement. If the ACI is less than the PCI by more than 3%, the CPA represents a downward adjustment to the LPT Requirement. Depending upon whether an upward or downward adjustment is necessary, the CPA shall be added to or subtracted from the LPT Requirement to derive the adjusted LPT Requirement .