

*File
FH 7322
Negotiations*

16 March 1966

MEMORANDUM FOR THE RECORD

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SUBJECT: Contract negotiations with [] n spare parts.

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1. On 3 March 1966, a negotiation was held at [] for the purpose of definitizing spare parts on Contract FH-7322. The immediate negotiation concerned [] Lists #1 and #40; however, a secondary consideration was to attempt to definitize a pricing formula for subsequent Spare Parts Lists.

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2. The following personnel were in attendance at the negotiation:

Contractor Personnel

Government Personnel

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[]

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SPO representatives [] had attended a pre-negotiation meeting at [] on Spares on 28 January 1966 with the Government team and the cost elements for spares pricing were discussed. The SPO inputs from the pre-negotiation conference were used in this 3 March 1966 negotiation.

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3. Lists #1 and #40 were proposed at [] price level by []. The Government team questioned "level of effort" costs, shrinkage factors, and burdens as discribed in the attached audit report (Attachment "A"). The Contractor retorted to the questionable areas with statistics derived from similar programs. Their rebuttal is contained in Attachment "B". As a result of the discussions, a [] This price is broken down to [] and it shall be reflected in Contract FH-7322 as Exhibit "A" dated 3 March 1966.

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4. In order to expedite the pricing and processing of subsequent lists, the Government offered [] a pricing factor of [] to be applied to purchase part costs. The Government offer was based on a review of eleven new lists and reflected approximately a 10% reduction from the Contractor's proposal. The factor was derived by applying G & A and material handling charge of [] to the purchase part costs. The Contractor countered with a [] factor and finally agreed to a factor of [] Procedurally, the following describes the manner by which subsequent lists will be priced:

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- A) Applies to Contract FH-7322 only.
- B) Applies to Contractor lists containing only "Purchase Parts" STATINTL
- C) The formula is: Cost = Material times
- D) The Contractor will submit lists to the Auditor. The Auditor will verify the material costs and the proper application of the factor. Upon receipt of his verification, the list will be approved and incorporated into the contract.

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Major USAF