

UNCLAS

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46. (U) Ltr. 9 March 1943
Fr: Maj. Gen. O.P. Echols
CG, Mat. Com., Wash.
To: The Under Secy. of War
Attn: Col. Park Holland
(File: Contract Files)

Contract W535 ac-34433 was to cover procurement of 500 A-26B airplanes, spare parts, and data at a unit cost of \$152,125 and a total estimated contract price of \$100,164,900, including a fee of 4%. The airplanes were to be manufactured at Douglas-Tulsa, and the delivery of airplanes was to begin in Jan. 1944. Previous procurement consisted of 500 A-26 airplanes on Contract W535 ac-21393 but no production airplanes were to be delivered until late in 1943. The increase of \$18,125 from the unit price of airplanes on Contract ac-21393 was attributed to engineering changes, necessity for additional subcontracting in order to expedite production, change in production location from Long Beach, Cal. to Tulsa, Okla., and increase in labor rates at Tulsa.

ARMY AIR FORCES
HEADQUARTERS OF THE MATERIEL COMMAND
WASHINGTON

MAR 9 - 1943

SUBJECT: Contract W 535 ac-34433
w/Douglas Aircraft Company, Inc.

TO: The Under Secretary of War
Attention: Colonel Park Holland
Section 5D, Room 725

1. Forwarded herewith recommending approval under provisions of the First War Powers Act, 1941, and Executive Order No. 9001, December 27, 1941, are two (2) cover pages and one (1) number of contract W 535 ac-34433 with Douglas Aircraft Company, Inc., Santa Monica, California, covering the proposed procurement of 500 Airplanes, Army Air Forces Model A-26B, Spare Parts and Data for a total estimated cost of \$109,164,900.00, fixed fee of 4% included.

2. The following information is submitted in connection with the clearance of this contract:

a. Material:

Item 1 - 500 A-26B Airplanes
Item 2 - Spare Parts (38%)

b. Unit Estimated Cost:

Item 1 - \$152,125.00 plus 4% fixed fee.
Item 2 - \$28,903,750.00 " 4% " "

c. Total Estimated Contract Value:

\$109,164,900.00 (fixed fee of 4% included)

d. Deliveries:

Item 1	Quantity	During Month Of
	1	January 1944
	3 additional	February 1944
	10 "	March 1944
	18 "	April 1944
	27 "	May 1944
	37 "	June 1944
	52 "	July 1944
	69 "	August 1944
	87 "	September 1944
	108 "	October 1944
	88 remaining	November 1944

Item 2 -

Spare Parts - Concurrently with and in proportion to the number of airplanes.

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3. The following additional information is submitted in connection with this proposed procurement:

- a. Douglas Aircraft Company, Inc. is the designer and manufacturer of the airplanes proposed for procurement.
- b. The airplanes proposed for procurement will be built in the contractor's Tulsa Oklahoma Plant.
- c. This is the contract contemplated by Letter Contract Special Form dated October 21, 1942, and supersedes letter contract as provided in Article 43 of the contract.
- d. Article 44A of the contract makes provision for additional plant facilities not to exceed a total of \$3,577,967.07 to be furnished by the Government.
- e. This is the second procurement of this type airplane, 500 A-26 airplanes having previously been procured on contract W 535 ac-21393. No production articles have been delivered on the previous contract, and no deliveries are anticipated by Schedule 8-L until late in 1943. Previous purchase was approved with an estimated unit cost of \$134,000 for construction at Long Beach, California, and no actual production costs are available. The proposed procurement of 500 A-26B airplanes is to be built in the contractor's plant at Tulsa, Oklahoma. The estimated unit cost of this proposed procurement is \$152,125.00 being \$18,125.00 higher than the previous procurement. This increase in the estimated unit cost is due to the following:
 - (1) Engineering changes are to be incorporated in the airplanes over the previous procurement, which are estimated to cost \$4,572.00 per airplane, made up of the following breakdown:

Labor	-	\$	784.00
Overhead	-		784.00
Materials and purchase parts	-		3,004.00
 - (2) In order to produce these airplanes at the rate desired, it will be necessary for the contractor to increase subcontracting from approximately 35% of the total unit estimated cost of the previous procurement to 70% of the estimated unit cost of the proposed procurement. This subcontracting will involve increased cost because of more tools, training, acceleration and getting under way

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expense of subcontracts, estimated to amount to an increase of \$6,125.00 per airplane.

(3) Change in production location from Long Beach, California to the new plant at Tulsa, Oklahoma, involves training costs and increase in overhead rate from 85% to 100%, estimated to increase the unit cost \$5,000.00.

(4) Increase in labor rate at Tulsa Oklahoma from \$1.05 to \$1.09, estimated to increase the unit cost \$2,428.00.

In view of the above, the estimated unit cost and amount of fee are considered fair and reasonable.

4. Article 44 provides for advance payments as follows:

- a. The amount proposed to be advanced is not to exceed \$31,489,875.00 or 30% of the estimated cost of this contract, exclusive of the fixed fee, whichever amount may be smaller.
- b. Subject contract was awarded without advertising and is based upon a fee of 4% to the Contractor.
- c. Provisions for Repayment: The Government will have a lien upon the balance in the special account to secure the repayment of the advance.
- d. The necessity for the advance is to aid in the financing of the purchase of materials, and in the employment of labor to perform the contract.
- e. The security proposed is the special bank account and lien provision, provided for in the contract.
- f. Procurement Authorities are:
 - AC 3005 P 110-09 A 0705-23
 - AC 3006 P 122-09 A 0705-23
- g. Interest at the rate of 2½% will be charged against the outstanding unliquidated balance of all advance payments under subject contract in accordance with the Procurement Regulations.
- h. This advance payment is necessary to expedite performance of this contract and is in the interest of the war effort, and it is therefore recommended that it be approved.

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5. The contractor's letter dated February 10, 1943, quoting conditions and costs under which subject contract was negotiated, is forwarded herewith for ready reference.

6. Inclosed herewith are contractor's letters dated December 23, 1942 and February 24, 1943, quoting conditions for necessity of the advance payment. An advance copy of the contract is also inclosed for the Advance Payment and Loan Section.

O P Echols

O. P. ECHOLS
MAJOR GEN., U.S.A.
COMMANDING GENERAL
MATERIEL COMMAND

- 4 Incls.
1. Contr. ac-34433 (1)
w/2 cover sheets
2. Ltr. 2-10-43
3. Statistical Report
4. Adv. Cy. Contr. for
Advance Payment &
Loan Section w/Ltrs.
12-23-42 & 2-24-43