

100. (U) Ltr. 5 Apr. 1945
Fr: Brig. Gen. A.E. Jones
Chief, Proc. Div.
OACAS, W&S, Wash.
To: Spec. Rep. of Under
Secy. War, Wash.
(File: Contract Files)

Supplemental Agreement No. 7 to Contract W535 A0-5140 was to cover procurement of 1250 A-26 airplanes, spare parts, special tools, and data. Estimated unit cost was \$72,476 and estimated total price was \$106,211,313.13 including a 3.75% fixed fee. Douglas submitted its original quotation and price breakdown on 27 Jan. 1945. The original bid was unsatisfactory to the procuring agency and Douglas revised its bid four times, beginning with a unit cost of \$70,683, the second \$73,565, the third \$75,496, and the final accepted quotation was \$72,476. Proc. Div. (Wash.) made a comparison of previous procurements of A-26 airplanes under contract.

ADDRESS REPLY TO
COMMANDING GENERAL, ARMY AIR FORCES
WASHINGTON, D. C.

WAR DEPARTMENT
HEADQUARTERS OF THE ARMY AIR FORCES
WASHINGTON, D. C.

3-75
5 April 1945

SUBJECT: Contract W 33-038 ac-5140

TO: Special Representative of the
Under Secretary of War.

1. Herewith one number and two cover sheets of Supplemental Agreement No. 7 to Contract W 33-038 ac-5140 submitted under the provisions of P.R. 305.2 and recommending approval under the provisions of the First War Powers Act, 1941, and Executive Order No. 9001, dated 27 December 1941.

2. The following information is submitted in conformity with P.R. 305.4:

a. Contractor: Douglas Aircraft Company, Inc.; Santa Monica, California.

b. Location of plant from which supplies are to be furnished: Tulsa, Oklahoma.

c. Materials:

- Item 3: 1250 AAF Model A-26 Light Bombardment Airplane.
- Item 4: Spare parts for the airplanes called for under Item 3 (12%).
- Item 5: Special maintenance tools and ground handling equipment for the airplanes called for under Item 3 (1%).
- Item 6: Data for the airplanes called for under Item 3.



d. Prices: (Estimated)

	<u>Unit Cost</u>	<u>Total Cost</u>	<u>Fixed Fee</u>
Item 3	\$ 72,476.	\$90,595,000.	\$3,397,312.50
Item 4		10,871,400.	407,677.50
Item 5		905,950.	33,973.13
Item 6 - Estimated Cost included in Item 3.			
Total Estimated Cost		\$102,372,350.00	
Fixed Fee at 3.75%		<u>3,838,963.13</u>	
		\$106,211,313.13	

e. Deliveries:

	<u>Quantity</u>	<u>During Month of</u>
Item 3	299	March 1946
	312 additional	April 1946
	324 additional	May 1946
	300 additional	June 1946
	15 remaining	July 1946
Items 4 & 5	In accordance with Appendix No. 1 attached to the contract, as amended.	
Item 6	In accordance with Article 1B of the contract, as amended.	

f. The contractor is the designer and developer of the A-26 series of airplanes and has received orders for several thousands of airplanes of similar type with satisfactory and timely performance and production efficiency.

g. Deliveries are not conditional on additional facilities being provided.

h. Contract placement policies were considered and applied. Competition was not invited for the reason that the contractor was the principal source for the A-26 series of airplanes. Allocation was approved by Joint Aircraft Committee. Tulsa, Oklahoma, where the work will be performed is in a Group III Labor Shortage Area. This is a "continuation" of a production of articles of the same character as those already being produced by the contractor for the Government. Established facilities exist and labor has been specially trained. The work cannot be placed with any other

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source with assurance of obtaining satisfactory performance and timely delivery. No increase in employment will result.

i. This Supplemental Agreement has been placed as an expansion to an existing contract on a cost-plus-fixed-fee basis because: (1) Contractor requested this procurement be handled to supplement the existing contract W 33-038 ac-5140 which is on a CPFF basis; (2) The uncertainty of segregating inventories between CPFF contracts and fixed-price contracts; (3) Complications in accounting. All similar contracts in contractor's Tulsa plant are on a CPFF basis.

j. Contractor's letter dated 27 January 1945 submitting its original quotation and estimated cost breakdown on Proposal Form No. 43-1, and its letters dated 8 February and 12 March 1945 submitting revised quotations are forwarded herewith for ready reference. Negotiations were carried on with the contractor from approximately 19 January to 10 March 1945. The contractor's original bid was made on the basis of a projection from the last block of airplanes produced at its plant. However, this block of airplanes included in the hourly cost figures several major specification changes such as the pilot's canopy, the bomb nose, the installation of the C-1 Automatic Pilot, a change in the nose gear and many minor power plant changes. The original bid was not satisfactory to the procuring agency and additional information was requested. The contractor revised its bid on four different occasions starting with an estimate of \$70,683, the second was \$73,565, the third was \$75,476 and the final accepted quotation was \$72,476, plus a negotiated fixed fee of 3.75%. Before the original bid was received by the procuring agency, it was withdrawn by the contractor who stated that it had been made in error and that certain elements of cost, including a wage adjustment approved by W.L.B. and the increased cost of subcontracting, had not been included in the original draft. In the final revised bid, the contractor recalculated its shop hours on actual experienced costs on the airplane on which the bid was drafted. The prior procurement of like airplanes under the prime contract is on the basis of a unit estimated cost of \$79,008. Considering the increase in labor rates and the extra cost of subcontracting, the final quotation at a unit cost of \$72,476 was accepted by the procuring agency. Prices have been reviewed and approved by the Price Analysis Branch, AAF Air Technical Service Command, and are considered fair and reasonable.

k. Comparisons of previous procurements of A-26 series under prior contract are as follows:

<u>Contract</u>	<u>Quantity</u>	<u>Estimated Unit Cost</u>
W 535 ac-34433	500	\$ 152,125 (4%)
W 535 ac-34433 Sup.	1600	93,914 (4%)
W 33-038 ac-5140	2000 ✓	79,008 (3.75%)

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The reduction in price for current procurement is due to the increased quantity with consequent reductions to be realized thereby.

1. The contractor's quotation indicates that it is contemplated that 85% of the work to be performed under the Supplemental Agreement consisting of assembled units and machining operations will be subcontracted. A list of the subcontractors with the articles to be subcontracted, with items, quantities and prices, is forwarded herewith for ready reference.

m. No royalty charges are included in the estimated cost.

n. ADSE Preference AA-1 (C-1) has been assigned to deliveries under this procurement. Controlled materials are involved and are expected to be available to provide for the requirements of the scheduled production.

o. The articles are required and are being secured in the interests of the war effort and are listed for procurement under the "K" Program, Fiscal Year 1945.

p. An extra copy of the Supplemental Agreement marked "advance copy" is forwarded and may be retained.

q. Article 44 of the prime contract provides that sums not to exceed \$54,515,520 or 30% of the estimated cost of the contract (exclusive of fixed fee) may be advanced to the contractor from time to time. By Ninth Section of the Supplemental Agreement, Article 44 in prime contract is amended to provide for advance payments not to exceed \$80,180,607.50 or 29% of the estimated cost.

r. The Seventh Section of proposed Supplemental Agreement provides for payment to contractor of any unpaid balance of fee upon completion and acceptance of the work called for under each item of Article 1(a) of said contract and each change order calling for work not included in any specific item, except that any unpaid balance of fee for the work called for by all items of Article 1(a) aforesaid added by the latest supplemental agreement to the said contract, shall be paid upon completion of performance of contract.

s. It is noted that proposed Supplemental Agreement amends Article 1A - Data - Aircraft (Revisions), and also adds Article 1B - Data - Aircraft (Revisions).

3. This Headquarters has been advised that certain data in support of the aforesaid amendment of the Advance Payment Article, is being forwarded to it by Headquarters, Air Technical Service Command. Upon receipt thereof, said data will be forwarded to your office promptly for your information and ready reference.

For the Commanding General, Army Air Forces:

6 Incls:

1. S.7 W33-038 ac-5140 (1 No. 2 Cov. Sheets)
2. Contr's ltr 1-27-45 w/incls.
3. " " 2-8-45
4. " " 3-12-45 w/incls.
5. Adv. Cpy W33-038 ac-5140
6. Statement of SubContracting.

for *Amendment*
A. E. JONES

Brig. General, U.S.A.
Chief, Procurement Division
Office, Assistant Chief of Air Staff
Material and Services