INDUSTRY USE CASES

The following real-world proposal demonstrates the need for a comprehensive assessment of the impact that the application of Federal Acquisition Regulation (FAR) Part 15 acquisition policies (by DoD and prime contractors) to offerings eligible for FAR Part 12/commercial have on increasing cost and schedules of U.S. Government (USG) acquisition.

Each use case involves products and services of a type that our company regularly provides to civil/ commercial aerospace customers.	ACQUISITION UNDER FAR PART 12	ACQUISITION UNDER FAR PART 15	COST OF FAR 15 PREFERENCE
Use Case: Top defense prime contractor acquiring a common aircraft component for a DoD Department	FAR 12 Proposal Price: **$248M**	FAR 15 Proposal Price: **$515M**	**+$267M or +108%**
	Schedule: **62 months**	Schedule: **86 Months**	**+24 months or +39%**
	Outcome: Prime customer ultimately chose to use commercial acquisition pathway, resulting in a proposed 108% savings to USG and taxpayers, and lead-time reduction of 24 months.		
Use Case Proposal Timeline:	Timely commercial product designation would have, conservatively, resulted in acquistion/proposal time savings of **~8 months**.		

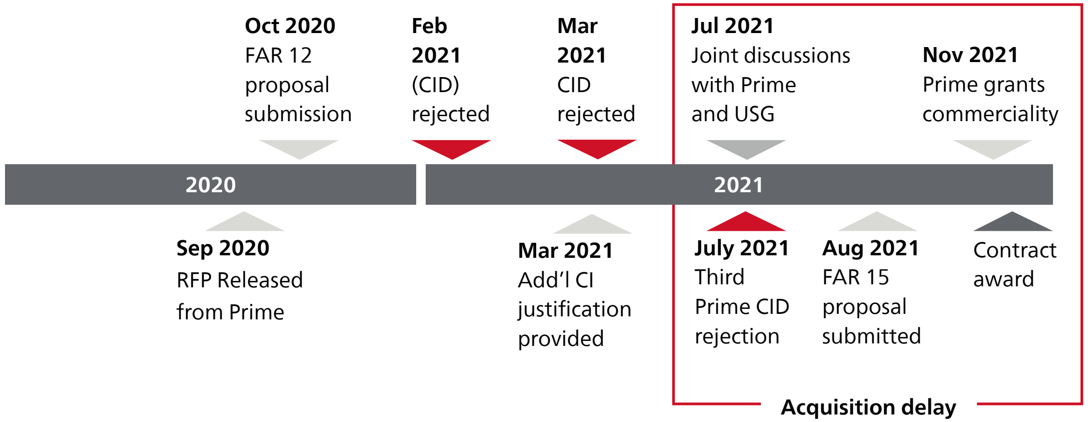
WHY WOULD THE FAR PART 15 ACQUISITION HAVE COST MORE AND TAKEN LONGER?

The proposal price for a FAR Part 15 acquisition is higher and the schedule longer for several reasons, as FAR Part 15 requires:

- Investment in standing up and maintaining segregated systems and workforce to comply with FAR 15 allocation requirements.
- Investment to stand up and maintain duplicative Capital Expenditures (e.g. facilities, production lines, test equipment, etc.).
- Standing up and staffing orgs to support highly complex compliance requirements, establish and maintain approved estimating, accounting, and purchasing systems, internal audit and compliance orgs to support USG system audits, and pre-/post-award audits.
- Time and investment for design and development based solely on customer specs, and investment in dedicated test equipment and facilities.

Use of FAR 12 acquisition enables us to leverage our existing portfolio of commercial designs that have been tested, qualified, and proven out over a period of years or decades - thereafter only having to make the necessary tweaks to fit a customer application. A proven design used as a baseline greatly reduces risk and schedule.

- Refer to the table "Differences in Requirements Impacting Cost and Schedule" for other areas of savings under FAR Part 12 acquisition.



From the perspective of a company with commercial operations and business systems, and offerings that are eligible for FAR 12

INDUSTRY USE CASES

Collins Aerospace
An RTX Business

The following real-world proposal demonstrates the need for a comprehensive assessment of the impact that the application of Federal Acquisition Regulation (FAR) Part 15 acquisition policies (by DoD and prime contractors) to offerings eligible for FAR Part 12/commercial have on increasing cost and schedules of U.S. Government (USG) acquisition.

Each use case involves products and services of a type that our company regularly provides to civil/commercial aerospace customers.	ACQUISITION UNDER FAR PART 12	ACQUISITION UNDER FAR PART 15	COST OF FAR 15 PREFERENCE
Use Case: Top defense prime contractor acquiring a common aircraft component for DoD Departments*	Proposed Avg. FAR 12 Price: **$136.7M annually for 3 years**	Proposed Avg. FAR 15 Price: **$143.8M annually for 3 years**	**+$21.3M over 3yrs**
	Outcome: Prime customer chose FAR 15 acquisition pathway, forgoing an aggregate savings to USG and taxpayer over 3 years of **$21.3M**.		

WHY WOULD A FAR PART 12 BE CHEAPER AND FASTER? WHY DOES RTX CARE IF THE GOVERNMENT SPENDS MORE MONEY?

- The proposal price for a FAR Part 12 acquisition is lower for several reasons, as FAR Part 12 allows for:
  - Stronger business case for our company to invest in efficiency initiatives, dozens of which we have proposed and been rejected by customer under current FAR 15 acquisition methods. Such initiatives to ease manufacturing, increase quality, reduce waste, etc. all have potential to not only reduce costs, but to speed production allowing more opportunities for early delivery and enhanced ability to support demand surges.
  - Utilization of existing resources and skillsets, the same that support other civil and FAR 12 programs.
  - Not having to stand up and maintain duplicative Capital Expenditures (facilities, production lines, test equipment, etc.).
  - Allows us to leverage our existing portfolio of commercial designs that have been tested, qualified, and proven out over a period of years or decades – thereafter only having to make the necessary tweaks to fit a customer application. A proven design used as a baseline greatly mitigates many kinds of risk.
  - Refer to the table “Differences in Requirements Impacting Cost and Schedule” for other areas of savings under FAR Part 12 acquisition.
- The added costs that are necessitated by FAR Part 15 acquisition could be re-allocated elsewhere.
- If FAR Part 12 acquisition is applied, where appropriate, across a program’s supplier base, the potential savings in schedule and price, are magnified at each tier of the supply chain, as are the opportunities for competition for subcontracts at each tier down the supply chain.
- FAR Part 12 acquisition, when appropriately applied, reduces compliance risk over a number of years, and does not necessitate sustaining a large compliance staff dedicated to supporting repeated audits by USG oversight bodies.

** Discussions ongoing for over a decade to transition from FAR 15 to a lower-cost FAR 12 commercial acquisition. The use case product line, historically and across all other USG program acquisitions, has been procured as a FAR Part 12 product. Today, this is the only non-commercial / FAR 15 acquisition in this business segment. The prime, and therefore the USG, are procuring the product using FAR Part 15 acquisition at a higher price.*

From the perspective of a company with commercial operations and business systems, and offerings that are eligible for FAR 12

INDUSTRY USE CASES

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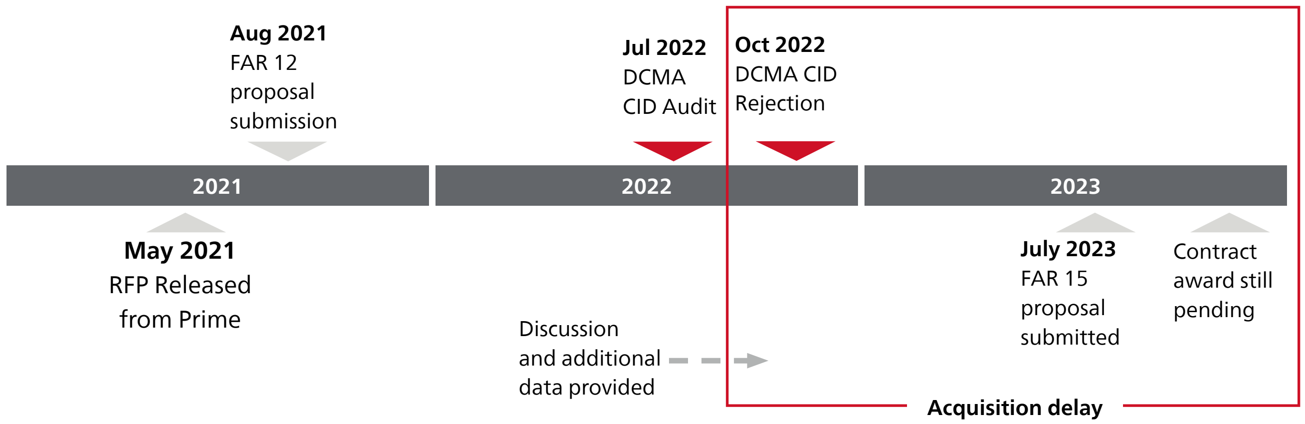
Each use case involves products and services of a type that our company regularly provides to civil/commercial aerospace customers.	ACQUISITION UNDER FAR PART 12	ACQUISITION UNDER FAR PART 15	COST OF FAR 15 PREFERENCE
Use Case: Top defense prime contractor acquiring products commonly used in commercial and civil aerospace for a DoD Department.	Proposed FAR 12 Price: **$115.9M**	Proposed FAR 15 Price: **$147.4M**	**+$31.5M or +27%**
	Outcome: After the Defense Contract Management Agency (DCMA) rejection of our commercial assertion and subsequent 9+ months of discussion, the prime customer chose to restart the procurement process and pursue a FAR Part 15 compliant solution.		
Use Case Proposal Timeline:	The preference for a FAR Part 15 process added **9 months** to an acquisition timeline that is still running and resulted in a proposal that was **$31M** more than the originally proposed price.		

- FAR Part 15 necessitates set-up of a separate production line dedicated to USG customers only, due to the added FAR Part 15 requirements.
- Under FAR Part 15, our company would be required to pass on product support costs otherwise funded internally as part of a product line since it fundamentally breaks up the business model of selling commercial products.
- Under FAR 15 the schedule to delivery would be longer due to setup, install, and testing of the new production equipment.
- The above is after already restarting the procurement with the FAR Part 15 compliant solution.



From the perspective of a company with commercial operations and business systems, and offerings that are eligible for FAR 12

DIFFERENCES IN REQUIREMENTS THAT IMPACT COST AND SCHEDULE

Collins Aerospace
An RTX Business

	ACQUISITION UNDER FAR PART 12	ACQUISITION UNDER FAR PART 15
Price	Fair and reasonable prices based on commercial market, consistent with industry practice.	USG-unique, highly complex compliance requirements to establish price requiring approved estimating, accounting, purchasing systems, etc.
Technology	Leverage existing, privately funded technology and designs that can be modified to meet aircraft-specific requirements.	Requires extensive, from scratch, USG-funded design and development.
Capital Expenditures	Ability to leverage existing manufacturing lines, test facilities, modify previously manufactured test equipment to aircraft-specific requirements, utilize commodity style procurement, industry recognized lean manufacturing practices.	Design and build unique and fully dedicated production line, supply chain channels, maintenance, repair and overhaul capabilities, test equipment, and facilities. May require standing up and maintaining a fully compliant Earned Value Management System (EVMS).
Compliance	Utilization of existing commercial systems, resources, and skillsets; GAAP Accounting, industry recognized lean practices, competitive market-driven pricing, commodity-based procurements resulting in economies of scale.	Accounting System, Earned Value Management System, Cost Estimating System, Material Management and Accounting, and Contractor Purchasing System Administration requiring separate, USG-unique and approved, maintained, and audited systems. Necessitates extensive additional internal and external resources and division of personnel to manage the setup, maintenance, and support of audit activities. Complexities also drive use of third-party consultants. Requirements are highly duplicative in most organizations.
Efficiency Initiatives	Contractor efficiency initiatives (such as lean and others described above) have a stronger business case as the potential return on investment (ROI) occurs over the remaining product lifecycle. That ROI provides the incentive to be innovative, to try many more initiatives, even when not every single one is successful. In the civil aerospace market, early delivery is nearly universally incentivized.	More difficult business case for contractors to undertake efficiency initiatives at any tier, particularly below the prime level. The ROI for an initiative must substantially accrue by the end of the instant contract, then the next proposal resets the cost baseline to a lower level. The DoD Profit Weighted Guideline ‘model’ does provide a marginal “plus-up” for cost efficiency measures; however, the amount is minimal and the discretionary nature of applying that input makes its value as an incentive uncertain, at best. No universal/uniform approach to incentivize contractors for early delivery.
Specialized Workforce Resources	Utilization of existing resources and skillsets.	Significant additional, specialized, and segregated resources required: government accounting, government business controls, procurement, supply chain compliance, procurement contracts, procurement legal, small business reporting, contracts, legal, operations, digital technology, engineering, and other administrative support to comply with FAR Part 15 requirements. Complexities also drive use of third-party consultants.
Small Business Reporting	Annual comprehensive commercial small business plan	Requirement for discrete proposal/contract small business plans and reporting.
Obsolescence/Diminishing Manufacturing Sources (DMSMS)	Product refresh timeline of 18-24 months is common benchmark across civil aerospace market. This refresh timeline greatly reduces risk of obsolescence and diminishing manufacturing sources.	Product refresh timelines stretching into decades, and requirements common in the FAR 15 framework (requirement to independently allocate funding for obsolescence management, funding for supply chain monitoring, design changes for production efficiency or enhanced performance require engineering change proposals to be proposed, approved, and negotiated, etc.) add to obsolescence and DMSMS risk.

From the perspective of a company with commercial operations and business systems, and offerings that are eligible for FAR 12