

**NATIONAL AIRCRAFT MAINTENANCE & LOGISTICS SUPPORT
INCENTIVE FEE SCHEDULE**

Incentive Fees

This contract includes multiple incentive fees that emphasize Operational Performance (aircraft launch rates, mission completion, and satisfactory inspection results) and Cost Performance. Because the Government considers Operational Performance to be more important than Cost Performance, the target incentive fee will be divided as follows: 60% Operational Performance/40% Cost Performance. The overall target fee will be (b) (4) (Base Year and Option Year 1) and (b) (4) Option Years 2 through 9) of the target cost of the contract. The maximum fee will be (b) (4) of the target cost of the contract, for each year.

Operational Performance Incentive (60%):

Fees relating to Operational Performance will be awarded quarterly and based upon the calculation of fees described in the "Determination of Incentive Fee" Clause. The Operational Performance Incentive Fee Schedule is as follows:

	Performance Period	Target Fee	Max Fee Available	Fee Earned
Base Year	Feb 1, 2010 – Mar 31, 2010	(b) (4)	(4)	(b) (4)
	Apr 1, 2010 – Jun 30, 2010			
	Jul 1, 2010 – Sep 30, 2010			
	Total			
Option Yr 1	Oct 1, 2010 – Dec 31, 2010	(b) (4)	(4)	(b) (4)
	Jan 1, 2011 – Mar 31, 2011			
	Apr 1, 2011 – Jun 30, 2011			
	Jul 1, 2011 – Sep 30, 2011			
	Total			
Option Yr 2	Oct 1, 2011 – Dec 31, 2011	(b) (4)	(4)	(b) (4)
	Jan 1, 2012 – Mar 31, 2012			
	Apr 1, 2012 – Jun 30, 2012			
	Jul 1, 2012 – Sep 30, 2012			
	Total			
Option Yr 3	Oct 1, 2012 – Dec 31, 2012	(b) (4)	(4)	(b) (4)
	Jan 1, 2013 – Mar 31, 2013			
	Apr 1, 2013 – Jun 30, 2013			
	Jul 1, 2013 – Sep 30, 2013			
	Total			
Option Yr 4	Oct 1, 2013 – Dec 31, 2013	(b) (4)	(4)	(b) (4)
	Jan 1, 2014 – Mar 31, 2014			
	Apr 1, 2014 – Jun 30, 2014			
	Jul 1, 2014 – Sep 30, 2014			
	Total			

	Performance Period	Target Cost	Max Fee Available	Fee Earned
Option Yr 5	Oct 1, 2014 – Dec 31, 2014	(b)	(4)	
	Jan 1, 2015 – Mar 31, 2015			
	Apr 1, 2015 – Jun 30, 2015			
	Jul 1, 2015 – Sep 30, 2015			
	Total			
Option Yr 6	Oct 1, 2015 – Dec 31, 2015	(b)	(4)	
	Jan 1, 2016 – Mar 31, 2016			
	Apr 1, 2016 – Jun 30, 2016			
	Jul 1, 2016 – Sep 30, 2016			
	Total			
Option Yr 7	Oct 1, 2016 – Dec 31, 2016	(b)	(4)	
	Jan 1, 2017 – Mar 31, 2017			
	Apr 1, 2017 – Jun 30, 2017			
	Jul 1, 2017 – Sep 30, 2017			
	Total			
Option Yr 8	Oct 1, 2017 – Dec 31, 2017	(b)	(4)	
	Jan 1, 2018 – Mar 31, 2018			
	Apr 1, 2018 – Jun 30, 2018			
	Jul 1, 2018 – Sep 30, 2018			
	Total			
Option Yr 9	Oct 1, 2018 – Dec 31, 2018	(b)	(4)	
	Jan 1, 2019 – Mar 31, 2019			
	Apr 1, 2019 – Jun 30, 2019			
	Jul 1, 2019 – Sep 30, 2019			
	Total			
	GRAND TOTAL (ALL YRS)			

Cost Performance Incentive (40%):

Fees relating to Cost Performance will be awarded following the completion of the appropriate period of performance by applying the cost sharing ratio formula that relates total allowable costs incurred to the Target Cost. As an incentive for the contractor to exercise exceptional cost control, the additional fee (difference between the Operational Performance target fee and overall maximum fee) can only be earned in the category of Cost Performance. This additional fee is identified under “Max Fee Available” below. The Cost Performance Incentive Fee Schedule is as follows:

Fiscal/Contract Year	Performance Period	Target Fee	Max Fee Available	Fee Earned
Base Year	Feb 1, 2010 – Sep 30, 2010	(b) (4)	(4)	(b) (4)
Option Year 1	Oct 1, 2010 – Sep 30, 2011			
Option Year 2	Oct 1, 2011 – Sep 30, 2012			
Option Year 3	Oct 1, 2012 – Sep 30, 2013			
Option Year 4	Oct 1, 2013 – Sep 30, 2014			
Option Year 5	Oct 1, 2014 – Sep 30, 2015			
Option Year 6	Oct 1, 2015 – Sep 30, 2016			
Option Year 7	Oct 1, 2016 – Sep 30, 2017			
Option Year 8	Oct 1, 2017 – Sep 30, 2018			
Option Year 9	Oct 1, 2018 – Sep 30, 2019			
Grand Total				(b) (4)

B.2 DETERMINATION OF INCENTIVE FEE

Incentive Fees

This contract includes multiple incentive fees that emphasize Operational Performance (aircraft launch rates, mission completion, and satisfactory inspection results) and Cost Performance. Because the Government considers Operational Performance to be more important than Cost Performance, the target incentive fee will be divided as follows: 60% Operational Performance/40% Cost Performance. The overall target fee will be (b) (4) (Base Year), (b) (4) (Option Year 1); and (b) (4) (Option Years 2 through 9) of the target cost of the contract. The maximum fee will be (b) (4) (Base Year) and (b) (4) (Option Years 1 through 9) of the target cost of the contract, for each year. As an incentive for the contractor to exercise exceptional cost control, the additional fee (difference between the target fee and maximum fee) can only be earned in the category of Cost Performance. The minimum fee available in both categories is zero percent. Fees relating to Operational Performance will be awarded quarterly and based upon the calculation of fees described below. Fees relating to Cost Performance will be awarded following the completion of the appropriate period of performance by applying the cost sharing ratio formula that relates total allowable costs incurred to the Target Cost.

Operational Performance Incentive

The target (as well as maximum) fee available in this category is (b) (4) (Base Year), (b) (4) (Option Year 1), and (b) (4) (Option Years 2 through 9) of the Target Cost. The minimum fee available is zero percent. Fee related to Operational Performance is impacted by the following three variables:

1. Launch rate
2. Mission completion
3. Aircraft inspection

The primary calculation is a ratio obtained by multiplying percentage launch rate by percentage mission completion. For example a launch rate of 90 percent and a mission completion rate of 90 percent equals a performance ratio of 81 percent. The contractor would then receive 10 percent times .81 or 81 percent of the available operational performance fee. If either figure is less than 90 percent, there is zero operational performance fee. The aircraft inspection factor is a negative incentive. Each aircraft that fails an inspection would result in the loss of one-third of the operational fee. If three aircraft fail an inspection, 100 percent of the fee earned for Launch Rate and Mission Completion for that quarter is forfeited.

Launch rate. The percentage of operational requests that are responded to with the numbers, types, and properly configured aircraft. This is not an operational readiness rate. Launch rates are not calculated based upon the status of each aircraft in the fleet. It is a measurement of the ability of the contractor to provide an aircraft in response to a specific properly scheduled operational request. On a quarterly basis, the Government will determine the number of properly scheduled requests that were properly responded to as a percentage of aircraft requested. All support sites will be rolled into one percentage. The contractor will not be penalized for this Incentive Fee metric for situations which are beyond the contractor's control. Examples of such situations include, but not limited to, the following: an aircraft is not available for launch because it is being painted by a third party vendor; an aircraft is not available for launch because is undergoing a Government directed modification; non-availability of Government aircrew to perform required maintenance test flights or ground runs, lack of a proper schedule by the Government, etc.

NOTE: "properly scheduled" is an aircraft requested by the Government in a particular mission configuration twenty-four hours prior to the expected launch time.

Launch Definition:

- Fixed-wing: When the Pilot In Command (PIC) has accepted the aircraft for flight AND the aircraft speed passes V1. Or, in the case of fixed wing aircraft without a V1 speed, the aircraft wheels break ground from the runway.
- Rotor-wing: When the PIC has accepted the aircraft for flight AND the aircraft is placed into forward takeoff motion.

Any failure occurring prior to accomplishment of the above would be a "launch incomplete"; afterward would be considered a "mission incomplete".

If there was a “no launch” attributed to a maintenance event on the designated launch aircraft but a second aircraft was available and was launched to complete the mission (an unscheduled launch), the contractor still achieves a no-launch for the designated aircraft because the contractor had declared it airworthy and ready for launch when it fact it was not.

Mission Completion. The percentage of missions that were fully completed versus the number flown. To be considered a completed mission, all systems under the control of the contractor must have functioned properly and not contributed to the inability of the crew to complete its assigned mission.

Mission definition: A mission is defined as a flight, or series of flights conducted to complete a specific purpose.

- A mission ends when the expressed purpose of the mission is complete.
- Missions may include multiple take-offs, landings, shutdowns, and start-ups, and may extend into a separate calendar day.
- Refuel stops do not constitute an end to a mission.
- For Incentive Fee calculation purposes, there can be only one properly scheduled launch counted per properly scheduled mission.

The contractor will not be held accountable for the Launch and Mission Incentive Fee metrics if all three of the following are true:

1. The inoperative equipment was not the fault of the contractor. For example, failure to perform a scheduled maintenance, failure to perform a required test, or failure to repair or replace equipment the Government had noted was inoperative or not fully functional.
2. The problem was not foreseeable by the contractor.
3. The problem was beyond the contractor’s control to have avoided.

On a quarterly basis, the Government will determine the number of missions as a percentage of missions flown that were not completed due to contractor performance or failure to perform contractual requirements. All support sites will be rolled into one percentage.

The launch rate and mission completion rate percentages will then be multiplied together to obtain a fee related to operational performance. There will be zero incentive fee if either percentage is below 90 percent as shown in the Operational Performance Incentive Fee Matrix shown below.

The statistics will be calculated by the contractor and verified by the Government.

Results of Government Aircraft Inspections. During each quarter, the Government will inspect at least 34 aircraft. These inspections will be conducted by the Government on a “no notice” basis. For each aircraft that fails a Government inspection, the contractor will forfeit one-third of the earned fee earned for that quarter. If three aircraft fail an inspection, 100 percent of the fee earned for Launch Rate and Mission Completion for that quarter is forfeited. See Tab 8 of Attachment 5 (Government Aircraft Inspections) for details.

Incentive Fee Matrix for Operational Performance

		Launch Rate Percentage															
		1.00	0.99	0.98	0.97	0.96	0.95	0.94	0.93	0.92	0.91	0.90	0.89	0.88	0.87	0.86	0.85
Mission Completion Rate Percentage	1.00	1.00	0.99	0.98	0.97	0.96	0.95	0.94	0.93	0.92	0.91	0.90					
	0.99	0.99	0.98	0.97	0.96	0.95	0.94	0.93	0.92	0.91	0.90	0.89					
	0.98	0.98	0.97	0.96	0.95	0.94	0.93	0.92	0.91	0.90	0.89	0.88					
	0.97	0.97	0.96	0.95	0.94	0.93	0.92	0.91	0.90	0.89	0.88	0.87					
	0.96	0.96	0.95	0.94	0.93	0.92	0.91	0.90	0.89	0.88	0.87	0.86					
	0.95	0.95	0.94	0.93	0.92	0.91	0.90	0.89	0.88	0.87	0.86	0.86					
	0.94	0.94	0.93	0.92	0.91	0.90	0.89	0.88	0.87	0.86	0.86	0.85					
	0.93	0.93	0.92	0.91	0.90	0.89	0.88	0.87	0.86	0.86	0.85	0.84					
	0.92	0.92	0.91	0.90	0.89	0.88	0.87	0.86	0.86	0.85	0.84	0.83					
	0.91	0.91	0.90	0.89	0.88	0.87	0.86	0.86	0.85	0.84	0.83	0.82					
	0.90	0.90	0.89	0.88	0.87	0.86	0.86	0.85	0.84	0.83	0.82	0.81					
	0.89																
0.88																	
0.87																	
0.86																	
0.85																	

Delayed Launches. The inability to launch aircraft in a timely manner due to the fault of the Contractor could result in missed missions. Unfortunately, the Government currently has no tool for capturing delayed launch data and the impact it has on meeting mission requirements. Therefore, the Contractor's performance in this regard cannot be measured objectively. However, specific information relating to missions missed due to delayed launches will be used to reflect unsatisfactory performance in the Contractor Performance Reports.

Cost Incentive Fee

The amount of Cost Incentive Fee earned is based on a formula that relates total allowable costs incurred to the Target Cost. This formula (share ratio) provides, within limits, for increases in fee above the Target Fee when total allowable costs incurred are less than the Target Cost. Likewise, the formula provides for a decrease in fee when total allowable costs incurred exceed the Target Cost. Specifically, the fee payable shall be the Target Fee increased by (b) (4) (dependent on contract year) for every dollar that the total allowable cost is less than the Target Cost or decreased by (b) (4) (dependent on contract year) for every dollar that the total allowable costs exceeds the Target Cost. The target fee available in this category is (b) (4) (Base Year), (b) (4) (Option Year 1), and (b) (4) (Option Years 2 through 9) of the Target Cost. The maximum fee available in this category is (b) (4) (Base Year), (b) (4) (Option Year 1), and (b) (4) (Option Years 2 through 9) of the Target Cost and the minimum is zero percent.

Following is an example of how the Cost Incentive Fee would be structured for a contract with the following: a Target Cost of \$70,000,000, a target Fee of 3%, a maximum fee of 5%, and a 75% Government/25% Contractor share ratio:

Minimum Cost: \$64,400,000
 Target Cost: \$70,000,000
 Maximum Cost: \$73,360,000

	Target	Maximum
Cost Performance	\$840,000	\$2,240,000

Total Incentive Fee Structure

Following is an example of the Total Incentive Fee structure for this contract with the following: a Target Cost of \$70,000,000, a target Fee of 3%, a maximum fee of 5%, and a 75% Government/25% Contractor share ratio:

	<u>Target (3%)</u>	<u>Maximum (5%)</u>
Operational Performance (60%):	\$1,260,000	\$1,260,000
Cost Performance (40%):	<u>\$840,000</u>	<u>\$2,240,000</u>
Total Fees:	\$2,100,000	\$3,500,000
Minimum Cost: \$64,400,000		
Target Cost: \$70,000,000		
Maximum Cost: \$73,360,000		

Using this Fee structure, following is an example of how the Operational and Cost Performance Incentive Fees would be calculated based on the stated performance results for a given 12-month period of performance:

Operational Performance:

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
Launch Rate	90%	92%	85%	92%
Mission Completion Rate	90%	93%	100%	90%
Failed Aircraft Inspections	1	3	0	2
Fee Available:	\$315,000	\$315,000	\$315,000	\$315,000
Performance Ratio: @	<u>.81</u>	<u>.86</u>	<u>.85</u>	<u>.83</u>
Operational Performance Fee Earned:	\$255,150	\$270,900	\$0	\$261,450
Deductions for Failed Aircraft Inspections:	<u>(\$85,050)</u>	<u>(\$270,900)</u>	<u>(\$N/A)</u>	<u>(\$174,300)</u>
Total Fees Earned:	\$170,100	\$0*	\$0**	\$87,150

* -No fee earned because of three failed aircraft inspections
 ** -No fee earned because of the Launch Rate being less than 90%

Cost Performance:

Should the Contractor's total allowable costs for the period of performance come in below the Target Cost at \$67,000,000, the Cost Incentive Fee earned would be calculated as follows:

Target Cost:	\$70,000,000
Less Total Allowable:	<u>\$67,000,000</u>
Amount below Target:	\$3,000,000
Multiplied by:	<u>\$0.25</u>
Increased Fee:	\$750,000
Plus Target Fee:	<u>\$840,000</u>
Total Cost Fee Earned:	\$1,590,000

Likewise, should the Contractor's total allowable costs for the same period of performance come in over the Target Cost at \$72,000,000, the Cost Incentive Fee earned would be calculated as follows:

Total Allowable Cost:	\$72,000,000
Less Target Cost:	<u>\$70,000,000</u>
Amount above Target:	\$2,000,000
Multiplied by:	<u>\$0.25</u>
Decreased Fee:	<u>\$500,000</u>

Target Fee:	\$840,000
Less Decreased Fee:	<u>\$500,000</u>
Total Cost Fee Earned:	\$340,000

Total Operational and Cost Performance Fee Earned for the 12-month period of performance under the following two scenarios:

Scenario 1 (Total Allowable Costs) = \$67,000,000

Operational Performance Fee Earned:	\$257,250
Total Cost Performance Fee Earned:	<u>\$1,590,000</u>
Total Operational and Cost Fee Earned:	\$1,847,250

Scenario 2 (Total Allowable Costs) = \$72,000,000

Operational Performance Fee Earned:	\$257,250
Total Cost Performance Fee Earned:	<u>\$340,000</u>
Total Operational and Cost Fee Earned:	\$597,250

[END OF SECTION B]