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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505



20 JUL 1969

BYE-7544-69

Copy 1*Dr. Malucas has seen*

MEMORANDUM FOR: Director, National Reconnaissance Office

SUBJECT : Actions Resulting from the Perkin-Elmer
Briefing of 30 June 1969

1. I thought it would be apropos to acquaint you with some of the actions taken and under way that are in response to the information presented by Perkin-Elmer in their briefing to you.

2. Of major concern to Chester Nimitz was his considered personal exposure to fiduciary suits by stockholders for not adhering to the letter of his contract in regard to special termination. The ASPR is confusing in this area in that it requires the Contractor to remain within authorized funding including any special termination costs but the appropriations do not provide funds directly for this purpose. John Crowley had previously assured him that his claim for special termination costs would not be jeopardized by the lack of funding in the contract to cover such costs. Assurance by the Government on this matter appeared to satisfy the contract personnel but did not assuage Chester's concern. A statement, to be inserted in the contract, has now been agreed upon by both Perkin-Elmer and the Government and this problem appears to be resolved.

3. Chester alleged that the Government's direction, its inability to adequately fund the program, and interface impacts outside of Perkin-Elmer's knowledge or ability to control had destroyed the incentive features of his contract. He requested a change in contract type to a CPFF at a base of \$205 million plus negotiated changes (stated to represent \$40 million giving a program cost of \$245 million less fee). The Office of Special Projects has carefully reviewed the impact of the Government on the ability of Perkin-Elmer to optimize their fee within the incentive structure and has determined that there is no valid basis for considering a change in contract type. In fact, the Office of Special Projects feels that the present type of



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contract has successfully focused top Perkin-Elmer management on the cost, schedule and performance aspects of the program which were never successfully accomplished prior to going to incentives. A letter was sent by John Crowley stating that no basis could be found for considering a change in contract at this time.

4. Chester also stated that the Government capriciously arrived at a program cost for negotiation of \$175 million when, in fact, he knew full well the cost was \$207 million. He stated that he accepted an incentive fee contract at \$175 million because he considered he would end in the same profit position as he would on a \$205 million fixed fee contract at 9.5%. The Office of Special Projects has carefully reviewed the basis for establishing the \$175 million offer and finds it is still valid. The contractor's own cost figures show that changes in the program which have occurred since the contract was negotiated account for over \$60 million of the difference between the present estimated cost to complete of \$245 million and the negotiated target cost of \$175 million. This has been discussed with the Perkin-Elmer Program Director and he is fully aware of his inability to support any claim that the Government's offer was capriciously developed or that it was not reasonable for the effort proposed.

5. The Government is in the process of negotiating some \$24 million in changes; \$6 million of which are related to the cost of deferring expenditures in FY 1969 (Plan B). Considering the way negotiations are proceeding, it is expected that the contractor will realize about \$15 million of the \$24 million claimed. Mr. Crowley has assigned Mr. James McDonald as negotiator and has given these negotiations a top priority for the program. Changes to the incentive structure to compensate for any impact on the contractor's ability to optimize his fee will be considered in the negotiations.

6. At his request, I had a lengthy discussion with [] on his concerns about the program. I have also talked at length with OSP personnel about the problems as they see them. It is my considered opinion that the rapport at the project management level is good and is showing improvement. If it is possible to obtain reasonable agreements in the negotiations, I feel certain that we can maintain the program operation dedicated to the job of meeting cost and schedule with a successful system.

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7. I recognize your concern, and that of John Foster, that the incentives to the contractor to optimize his fee based on performance may be contrary to the desires of the Government to hold-the-line on cost and schedule. At the time the incentive formula was developed, an effort was made to balance the three tradeoff factors insofar as practical so that the contractor's options were such as to drive him in the direction of the Government's desires. To assure that the contractor did not trade off schedule--which could be costly to the Government--a contract clause provides for Government acceptance at any performance level which the Government considers to be acceptable if the sensor is behind in its assembly and test schedule. Expenditures of dollars for performance improvement is not so readily controlled in the design and development phase. However, in the production phase such tradeoffs will be controlled through the requirement for Government approval of all changes after FACI. Since such an approval requirement is somewhat contrary to the objective of fee based on level of performance, this element of the incentive formula is being reviewed to determine if a change should be made to bring both contractor and Government goals more in line. The fee associated with measured level of performance can be as much as 4% on the first three articles and 2% on the remaining three. Here again, I feel certain that an equitable arrangement can be negotiated within the present contract structure.

8. Please feel free, if you so desire, to make available copies of this memorandum to the other parties in attendance at the briefing.


CARL E. DUCKETT

Director

CIA Reconnaissance Programs

cc: DD/NRO

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