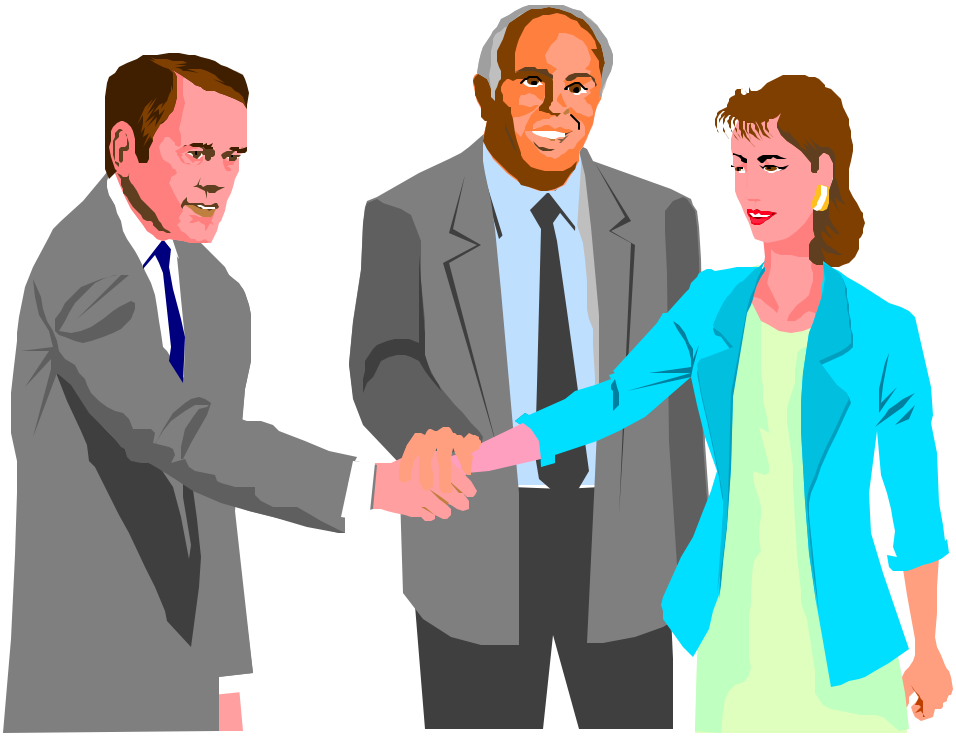
USER'S GUIDE TO

PERFORMANCE BASED PAYMENTS



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Foreword

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Looking for a better way to do business?
Performance Based Payments are for you!

Performance Based Payments (PBP) is a new financing tool that strengthens the government industry relationship and furthers DoD's commitment to revolutionize its business affairs.

The Under Secretary of Defense (Acquisition, Technology, and Logistics), on November 13, 2000 issued a call for renewed attention to the use of PBP.

For the first time on fixed priced contracts, a program manager can make financing payments to the industry partner based on actual work accomplished instead of using traditional progress payments for that purpose.

The joint, government - industry team develops the events that will be validated throughout the period of performance so each will have a thorough knowledge of both program and financing requirements. This works to the benefit of the entire team.

I strongly encourage program managers, contracting officers, and industry to use this guide to help change the existing paradigm and to use PBP as their preferred fixed price contract financing method.

Dave Oliver

Dave Oliver

Acknowledgments

The PBP User's Guide reflects the dedicated efforts of both government and industry representatives from the Navy, the Army, the Air Force, the Defense Contract Management Agency, the Defense Contract Audit Agency, the Defense Finance and Accounting Service, the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics), and industry associations. It was prepared by the Office of the Deputy Under Secretary for Acquisition Reform; any comments about, suggestions for improvements in, or recommendations for additions to this document should be addressed to that office. This guide will be modified as experience with the use of performance-based payments grows within the Department.

Performance-Based Payments (PBP) — Strategies for Success

1. PBP is a benefit to both the government and industry, but careful planning is essential.

2. PBP is the preferred financing technique for fixed-price contracts.

3. Early joint government/industry Integrated ProductTeam (IPT) involvement will enhance program success.

4. Collaborative teaming between the contractor and the Government leads to a clear understanding of key program events.

5. PBP is a financing method, not partial or final acceptance and enhances the government's decision-making responsibility through early agreement on program milestones.

6. Generally stable programs are the best candidates for PBP.

7. Successful PBP focuses on measurable technical and schedule performance fostering a detailed understanding of the integration required for successful program execution.

8. Performance events should strike a balance between contractor cash flow and meeting contract requirements

9. Using a standard format for documenting PBPs will speed Defense Contract Management Agency (DCMA) event validation (see Appendix E).

10. Contractor cash flow will benefit if the joint Defense Finance and Accounting Service (DFAS) and the Defense Industry Leadership format is used to request PBPs. (see Appendix F)

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CHAPTER ONE

What Are Performance-Based Payments (PBPs)?

PBP is a method of providing financing to contractors performing under fixed-price contracts. PBPs differ from the more traditional progress payments in that they are based upon the achievement of specific events or accomplishments that are defined and valued in advance by the parties to the contract, rather than being tied to and based upon incurred costs of performance.

There are significant advantages for both the government and the contractor, such as the following:

For the government:

1. Enhanced technical and schedule focus.

   - PBP focuses attention on accomplishing meaningful and measurable technical progress and on meeting contract schedule commitments. By linking a contractor's financing payments to critical aspects of program execution, PBP reinforces the primacy of technical and schedule accomplishment. In contrast, traditional progress payments are based on incurred costs commensurate with physical progress on the contract.

   - In order to establish the structure for PBPs, the parties have to identify and agree up front on what events or accomplishments will be used to indicate true progress, when they are expected to occur, how their accomplishment will be determined, and what financing value they will have. Thus, from the outset of the contract, the parties mutually understand the expectations of the program and their impact on the contractor's cash flow.

2. Reinforced roles of program managers and Integrated Product Teams (IPTs).

   - PBP is a management tool that allows a program team to link financing to actual documented performance. PBP plans are jointly developed by the supporting government team (comprising representatives of program management, technical and logistics managers, the Defense Contract Management Agency (DCMA), and the contracting officer) and the contractor.

   - Members of the government team (including contract management personnel) verify whether the identified events have been accomplished. After the event is successfully completed, the Contracting Officer administering the contract can approve payment. PBP is

"self policing" because payments are made only when the identified events have been accomplished.

- Suspension or reduction of traditional progress payments for lack of progress requires a specific action by the government, whereas PBPs are made only when performance actually takes place. Therefore, in many instances, the costs of the administration and oversight are reduced.

- Why are reductions in the costs of oversight and compliance possible with PBP? It is because, with PBPs, the contractor's accounting system is not relied on to determine payment amounts. Thus, there is no need for oversight of the accounting system (including such matters as compliance with cost principles, cost accounting standards, pension and insurance systems, and material management systems) to enable the financing payments to be made to the contractor. Oversight is tailored to each contract, in consideration of the contractor's experience, performance record, reliability, financial strength and other factors.

- Similarly, the contractor's financing payment requests are event-driven and contain no financial information that must be prepared according to financial regulations and practices dictated by the government. Both parties should therefore be able to reduce cost-based oversight and compliance expenses.

3. Broadened contractor participation.

- Traditional cost-based progress payments can be used only with those contractors that have government-approved accounting systems. This traditional practice may unintentionally reduce the array of potential contractors with whom DoD can do business. When PBPs are used, however, the contractor's accounting system status is no longer a precondition of the financial relationship between the parties. Many of today's leading technology firms do not regularly perform under government contracts and, therefore, have no need for government-compliant accounting systems in order to be successful in their chosen fields. Therefore, the use of PBP allows DoD to eliminate one potential barrier to wider supplier participation in the Defense marketplace.

- With increased emphasis on using non-cost-based techniques to establish price reasonableness and on using performance specifications and statements of objectives in lieu of statements of work—and as part of DoD's outreach to both traditional and non-traditional sources for our goods and services—PBP offers a way not to have to rely on cost-based methods to provide contract financing. Like these

other techniques, it focuses on outcomes, results, and timing. PBP can be the key ingredient in keeping the entire process free from dependence on costs. And it provides increased likelihood that DoD will obtain its requirements in an affordable manner.

For the contractor:

1. Potentially improved cash flow.

   - Structuring effective performance-based events or accomplishments can provide significant cash-flow advantages for a successfully performing contractor. Under current Federal Acquisition Regulation (FAR) Subpart 32.10, PBPs can be made for up to a specified portion of the contract's or line item's price (currently 90%), whereas traditional progress payments are limited to a fixed percentage of incurred costs (currently 80% for DoD). This can have a substantial positive cash-flow advantage for a contractor.

   - For instance, assume a fixed-price contract for $10.0 million that has a potential profit of 15% as negotiated and only one deliverable item, at the end of the contract period. Under PBP, the total amount of financing the contractor will receive is $9.0 million. Using the current progress payment rate of 80% (for large business), traditional progress payments would amount to approximately $7.0 million (in this example, cost would be approximately $8.7 million, and only 80% of that amount would be received as progress payments). The difference in cash flow over the life of the contract would be $2.0 million, or an improvement of 23%.

2. Reduced costs of oversight and compliance.

   - Because the contractor's accounting and related systems are not integral or required when making PBPs, the contractor does not have to expend resources and make special accommodations to comply with many of the government's cost-based oversight and compliance programs (e.g., Cost Accounting Standards (CAS), Material Management and Accounting Systems (MMAS), Contractor Insurance and Pension Reviews (CIPRs)). This can free up administrative resources to provide better overall value and possibly reduced costs.

   - Also, for contractors that may be considering entering traditional government markets, being able to do so under a PBP arrangement—and thus not having to set up a variety of government-unique compliance mechanisms—may be enough to tip the scale in favor of market entry.

3. Total management team focus on technical and schedule progress.

- With financing payments under PBP keyed to technical and schedule achievements, the contractor's entire management team has reason to involve itself in, and be mindful of, program execution and progress in accordance with the program schedule that was contemplated when the contract and the PBP plan were originally negotiated.

CHAPTER TWO

When Can or Should PBP Be Used?

PBP Authority

PBP, as stated in Federal Acquisition Regulation (FAR) Part 32, is the government's "preferred" method of financing fixed-price contracts when

- the contracting officer finds the use of PBPs practical and
- the contractor agrees to their use. (FAR 32.1001)[1]

Thus, the use of PBP as the financing technique under a contract requires the agreement of both parties to the contract.

PBP can be used as a financing technique for fixed price-contracts only. But it cannot be used with fixed-price contracts being awarded using the sealed bidding procedures of FAR Part 14.

A change to the FAR is pending which will permit PBPs to be used with undefinitized contract actions.

PBPs are not partial payments; A PBP is a means of determining the amount and timing of financing payments. As such, any PBPs that are not liquidated must, in the event of a termination, be repaid. And PBPs are not covered by the Prompt Payment Act interest entitlement if delayed.

What Characteristics Make Contracts Good Candidates for Using PBPs?

Although PBP has not yet achieved widespread use in the types of contracts where the regulations permit its use, the limited experience to date does indicate that certain characteristics of a contract may make it a likely candidate for the use of PBP. These characteristics are inherent in the decision to use a fixed-price contract. Generally, the process or product is known, the contractor has had experience with manufacturing the product or performing the service, and the technical and financial risk is relatively low. In most cases, the government has to be the first party to make a decision about the potential for using PBPs, so that provision can be made for them in either the solicitation or the proposed contract. Appendix C gives examples of using PBP in contracts for hardware production, services, and for R&D efforts.

[1] Appendix B is a compilation of selected portions of the relevant statute and the acquisition regulations concerning PBPs.

Offering PBPs in Solicitations

Potential offerors are not precluded from proposing the use of PBP, even if it is not initially in the solicitation. But it is normally best if the solicitation indicates that such proposals will be considered. When anticipating fixed-price contracts, contracting officers are encouraged to allow offerors to have the option to propose the use of PBPs. The following are some of the considerations that may be used to help decide on the use of PBP:

1. If the underlying item being acquired has a reasonably stable design and the production processes for it are fairly well established, then PBP has a better chance of being successful.

   - Because the parties must agree on the particular events that will trigger entitlement to individual payments, on how the accomplishment of these events will be measured or confirmed, and on the value they will have for financing purposes, it is important that the program be well defined and that the expected outcomes are well understood by the parties. This will prove critical to establishing how accomplishments will be verified and to assigning a financing value to them.

   - If difficulties arise in selecting events, defining measures or means of confirming their accomplishment, and/or deciding on the valuations, this may indicate a weakness in the program definition or may raise doubts about whether PBP is the appropriate financing method for the requirement—or even whether a fixed-price contract is indeed appropriate to the circumstances. As noted earlier, PBP is most effective on recurring production programs or those for a known and well-defined set of services where design changes and uncertainty are minimal.

2. To a certain extent, the same matters discussed above also apply to fixed-price contracts for services. If the parties can reasonably clearly define the interim events in total performance that are appropriate indicators of progress, then PBP could be used.

   - If, however, the statement of work hasn't been carefully drafted to permit flexibility or to accommodate potential variability in the means, sequence, or timing of interim aspects of work performance—or if the means of performance has been too rigidly specified by the government without regard to possible differences in contractor approaches—then the likelihood of agreeing on mutually acceptable PBP payment events is reduced. The use of performance-based work statements can be particularly helpful here, because they tend to focus more on what is to be accomplished rather than on how it must be done.

- In this regard, PBP and performance-based services contracts are often excellent complementary tools to use in defining and designing a sound overall business relationship between the parties.

3. A reasonably well-defined and well-understood program execution schedule can help in laying out a set of PBP payment events that will afford the contractor a reasonable cash flow and also accommodate the program's likely funding profile. This is an especially important consideration if the program is expected to be incrementally funded (in accordance with agency procedures) and the contractor may be able to achieve improvements in actual event accomplishment beyond what was assumed when the PBP layout was established.

   Programs with an extended performance period that are anticipating funding increments over their life need to ensure that there is enough funding flexibility to be able to make PBP event payments on a schedule that may vary from that originally expected.

   Keep in mind that the timing of the PBP payment events that the parties contemplate during contract negotiations may not, in fact, be the exact schedule (or sequence) under which the events are ultimately accomplished. Contracting officers should not necessarily insist upon strict adherence to PBP event schedules or sequences if the events identified are actually accomplished on a somewhat different schedule as the program proceeds. The contractor's entitlement to a financing payment is based on event accomplishment, not on the preliminary schedule in the minds of the parties when the PBP structure was being negotiated. In rare cases, such as those involving incremental funding or undefinitized contract actions, PBP payment event accomplishment may create situations in which the contract's funding limitations preclude making the "earned" financing event payments. Care is required on the part of both parties to ensure that such instances of funding limitations affecting PBP event payments are anticipated and resolved before their occurrence.

   While PBP should not be used as a mechanism to encourage or cause contractor performance beyond that called for in the contract, the motivation inherent in tying contractor cash flow to actual accomplishments must be realistically anticipated.

<u>Relationship to Other Types of Contract Financing</u>

FAR Part 32.1003 does not allow for mixing of PBP with other types of contract financing except in those circumstances where advance payments or guaranteed loans are authorized in accordance with FAR subpart 32.4 or subpart 32.3 respectively.

PBP can be used on either a contract-wide or line item specific basis. FAR Part 32.1004 provides the authority, "Performance-based payments may be made either on

a whole contract or on a deliverable item basis, unless otherwise prescribed by agency regulation."

In no event, however, should PBP be used in conjunction with other financing techniques for the same contract.

In some cases it may be appropriate to convert the contract financing method being used from one financing technique to another at a specific point during contract performance or under a single CLIN. Special care needs to be taken in such situations to ensure that the government's interests are adequately protected when converting from traditional cost-based progress payments to PBP. In particular, all previously made progress payments should be incorporated into the first PBP event payment when the conversion is being accomplished. Care should also be taken in adjusting liquidations when making such conversions.

Up-Front Efforts by the Contracting Officer and the Joint Team

The decision to use PBP as the financing technique for all or portions of a contract will require more time and effort of the contracting officer, the contractor, and all members of their supporting teams during the preaward phase. Not only must the contract or line-item price be negotiated, but the array of PBP events must be selected, defined, and valued. In addition, the validation criteria must be established. All of this will add to the time and effort expended by the parties at the start of the contract, and sufficient time must be left to address these necessary preparatory steps if the use of PBP is to be successful.

If these up-front efforts are not given enough time and attention, administrative difficulties and unnecessary problems are likely to be encountered during the life of the contract. Up-front planning and teamwork are necessary; they constitute an invaluable part of making the use of PBPs a success. Given the numerous administrative and financial advantages for both parties that PBP offers, however, this added up-front planning and negotiation should be accepted as a necessary and worthwhile investment by both sides.

<u>Undefinitized Contract Actions</u>

[Note: This section has been prepared in anticipation of the finalization of the proposed rule contained in FAR Case 2000-007. This guidance will be appropriate when the rule proposed in that case becomes a final rule.]

PBPs are permitted to be used in undefinitized contract actions (UCAs). If the parties have tentatively agreed on the use of PBP as the financing technique for the contract or contract action, but the final fixed price has not yet been established, special care needs to be taken in establishing the PBP payment events (and their values) that may occur before final definitization. While the regulations do not currently provide any unique guidance or limitations to be applied in such situations, the guidance furnished with respect to traditional progress payments in UCA situations can suggest reasonable ways to proceed.

However, because the overall limitation on PBPs is stated in terms of the percentage of the contract or line-item price to which they are to apply, the determination of what PBP events can and should trigger payment prior to definitization may well require the government to estimate what the final price of the contract or line item will be. The not-to-exceed price set forth in the UCA itself may be an initial reference point for setting PBP event values for the pre-definitization period.

A reasonable alternative approach in UCA situations may be merely to agree on all of the PBP events but to negotiate values only for those that may occur before final definitization. This would leave the valuation of the remaining PBP events to be settled in the definitization modification itself. In that way, the entire PBP event structure can be negotiated and the values for events that might precede final settlement on price can be put into the contract.

The limitations set forth in DoD FAR Supplement (DFARS) 217.7404 (as an implementation of the statutory mandates in 10 U.S.C. 2326(b)(2)) on the amounts that may be obligated against a UCA must be strictly observed in all circumstances. While the presence of PBP financing does not alter any of these limitations in any way, it does add to the care that must be given to structuring and valuating PBP events that may occur before definitization and to the means for finalizing the overall financing payment arrangements once agreement on all terms is reached.

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CHAPTER THREE

Establishing PBP Events

Selecting the payment events requires serious discussion between the parties. While the events to be used for PBPs need not be on the "critical path" of the overall program plan, they should be or represent meaningful and essential steps in successfully executing the work called for by the contract or by the line item to which they relate.

Virtually every significant program (whether it entails producing an item, providing a service, or conducting research) has a plan identifying the steps that will have to occur in order for the overall effort to be successfully completed. Thus, the initial set of candidate events that can be used for PBP purposes should not require the creation of steps not already set forth in the program's planning documents. In exceptional circumstances, some PBP-unique events may have to be identified, but this should be a rare situation.

PBP events can be of two kinds: severable (i.e., stand-alone) or cumulative (i.e., dependant). A typical set of PBP events will contain both kinds:

- Severable events do not depend for their successful accomplishment upon the prior or concurrent completion of any other event or action.

- In contrast, cumulative events require the prior or concurrent completion of other events in order to be successfully accomplished.

The number and type of events that will be most appropriate for a given PBP layout are very much a contract- or line-item-unique matter.

In no case, however, should the parties select PBP events that do not require meaningful effort or action. For example, such things as "signing the contract" or "exercising an option"—or events that merely indicate the passage of time or the incurring of costs (e.g., "three weeks from the critical design review" or "expenditure of X% of the material budget") are not appropriate for use as events for PBP purposes.

Rather, the events selected for use as PBP payment events should represent integral and meaningful aspects of contract performance and should signify true progress in completing the contract effort.

How many events?

There is no "magic" number of PBP events that are most appropriate to a given contract situation. The PCO needs to strike a balance in determining the number of events. On the one hand, events need to be frequent enough to provide cash flow in some relation to the contractor's costs, assuming satisfactory performance. On the other hand, a proliferation of events will tend to dilute the motivational aspects of performance base payments. And special care should be taken to identify enough PBP events that will occur during the early stages of contract performance to avoid long periods of no or insuffi-

cient cash flow for the contractor when the rate of expenditures tends to be significant. Keep in mind that PBP is a contract financing tool and that its advantages for the contractor can be significantly reduced (or, in extreme cases, eliminated) if there are significant periods of time between PBP events. Also, one should not eliminate potentially good PBP events merely because they will or may occur on a frequent or concurrent (i.e., "stacked") basis. Generally, the number of events chosen and their values should be appropriate for using PBP as a financing technique and for motivating contractor performance.

Defining the Events

Once the candidate events have been selected, it is essential to define them as clearly and precisely as possible so that their accomplishment can in fact be determined. Ideally, the definitions of these events and the measurements or other indicators to be used to determine their achievement should be such that there can be no argument or uncertainty about whether they warrant making a PBP.

The use of objective metrics, based upon true indicators of performance, is the preferred course of action here. Objectivity and clarity, in both event definition and in how accomplishment will be determined or measured, cannot be overly stressed. Remember, in order for PBP to be used, the contracting officer must find PBPs to be practical and the contractor must consent to their use.

Thus, it is essential that the parties arrive at clear definitions, agree on measurements to be used, and have a consistent bilateral understanding of what is expected in order to qualify for payment.

What is "Completion," and Is There Any Flexibility?

In some cases, while a "good" PBP event may be clearly identified and adequately defined, there may be room for interpretation concerning what constitutes its completion. For example, in an aircraft contract, one of the PBP events might be the completion of the tail section. A question could arise about whether this event has been successfully accomplished if the tail section has been finished and properly inspected but a few, low-cost rivets are missing from a small section of the skin. (This is sometimes referred to as the case of the "golden rivets.") Has the tail section been "completed" for purposes of entitlement to payment? There is no absolute answer. But, given that the tail section can be moved on to the full assembly area so that mating it to the main fuselage can begin, it could reasonably be said that, for purposes of entitlement to the event payment for tail-section completion, the event is "essentially" complete. PBPs require a realistic understanding of the underlying manufacturing process and businesslike accommodation of real-world circumstances.

Remember that PBP are a means of contract financing that ties payments to progress. Approving or allowing a PBP event payment to be made does not constitute government acceptance of the item or otherwise compromise the government's financial or other interests.

Utilizing the Government Team

In many cases, representatives of DCMA, the Defense Contract Audit Agency (DCAA) and the Defense Finance and Accounting Service (DFAS) will have special familiarity with the program as well as with the contractor's operations and organization. This experience and familiarity can be a valuable asset for the contracting officer and the program team when selecting and defining appropriate PBP events. Also, DCMA on-site representatives are frequently the best resource for verifying event accomplishment during contract performance. Contracting officers are encouraged to seek the input of DCMA, DCAA and DFAS representatives and to build in their continuing involvement when negotiating and structuring the contract financing template. Using all of the experience and specialized expertise of these organizations can often make a substantial difference in the practicality and success of a performance-based financing approach in a major contract activity. Appendix D describes DCMA's role in the PBP process and provides links to DCMA, DCAA and DFAS websites.

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CHAPTER FOUR

Valuing PBP Events.

After the parties have agreed on the events that will be used to trigger financing payments and have settled upon how their accomplishment will be measured or determined, the next critical step in the process is setting values for the events themselves.

PBPs cannot, in total, exceed 90% (based on regulatory constraints) of the price of the contract or line item to which they apply. PBPs must not be structured in such a way as to become advance payments, and the event values should have some reasonable relationship to the amount of working capital the contractor needs in order to achieve the progress that they represent. In many cases, the contract price will have been negotiated without the submission of cost or pricing data or any cost information at all. For example, in a competitive acquisition, the price may be established on the basis of the competitive offers received, without detailed cost data submissions. Also, price analysis may be used to establish price reasonableness even in a noncompetitive negotiated acquisition. The growing reliance on price-based acquisition techniques may mean that the government will not know the prospective cost pattern that the contractor will incur during performance. Therefore, the parties have to arrive at reasonable PBP event values that will not result in payments that, in total, exceed the FAR limitation (currently 90% of price) and that do represent a businesslike approximation of the contractor's financing needs.

However, since in most fixed-price contract situations the contractor's costs of performance are likely to be less than 90% of the negotiated price, PBPs are likely to afford the contractor a small amount of profit beyond that initially contemplated.

In fact, the favorable cash-flow potential of PBPs may be one of the main reasons for a contractor to agree to their use. Thus, there is no reason to seek to limit or reduce the use of the full flexibility provided in the regulation for this method of financing fixed-price contracts because it may be "better" for the contractor than traditional cost-based progress payments.

The savings to both parties from the reduced administrative and oversight burdens associated with taking incurred cost out of the picture for contract financing payments, and the fact that PBP ties <u>all</u> financing payments to actual documented progress, should incline the government toward favoring the use of PBP whenever and wherever possible.

PBP event values should not be established that are disproportionate to the approximate "value" of the amount of progress that the underlying events represent. For example, setting PBP event values that "front-load" the financing payments while still staying within the regulation's limitations is not in the government's interest. Similarly, however, setting PBP event values that are too small in relation to the contractor's legitimate financing and cash-flow needs is also not in either party's interest.

Keep in mind the fact that PBPs are made only after the progress to which they relate has been achieved does inherently have a motivating influence on the contractor not obtained with traditional cost-based progress payments. Because the contract's PBP structure is a matter of negotiation between the parties, the definition process fosters a detailed understanding of the effort and leads to "buy-in" on the part of both government and industry to make the contract effort and the use of PBPs a success. If, after thorough examination, it is determined that the program does not lend itself to the use of PBPs, traditional progress payments can be used instead.

As previously noted, PBP should not in any case be used to encourage or extract performance that is beyond (in extent, amount, timing, etc.) that required for successful completion of the contract. If the government wishes to encourage the contractor to try to deliver performance that in any respect exceeds the contract's stated or minimum requirements, formal incentive arrangements should be used. PBP is not an appropriate mechanism for this purpose.

Once the parties have agreed on the PBP events, on how their accomplishment will be measured, and on what the event values will be, it is best to summarize this agreement in the contract. This summary can be a valuable reference source for the parties and, more important, it can be useful for others who will be involved in the payment and approval process. Such a summary should include the following:

- The PBP event number.
- A brief description of the event.
- The contract line item or sub-line item (CLIN or subCLIN) to which the event applies, if the PBPs are at a CLIN level.
- A statement as to whether the event is severable or cumulative (and if cumulative, the required predecessor or concurrent events).
- The funding information related to the event.
- The event's value.
- The estimated date when it is expected to occur.

Users are strongly encouraged to adopt the Appendix E format for such a PBP contract summary, since it captures all critical validation and payment information.

CHAPTER FIVE

Processing PBPs

Because PBP is a method of furnishing contract financing, every effort should be made to process payment requests as expeditiously as possible.

The government and industry partners need to recognize that, currently, payments under PBP will not match the speed of electronically transferred progress payments. DoD's legacy systems are currently unable to process PBPs as rapidly as progress payments are processed. DoD is working to correct this situation.

Appendix F contains a recommended event payment form jointly developed by DFAS and the Defense Industry Leaders group. It is also considered a BEST PRACTICE and will facilitate the payment process.

For example, the contracting officer should encourage the contractor to submit PBP requests by facsimile. The contracting officer may establish or permit the pre- or post-payment confirmation of event accomplishment to be given electronically in order to eliminate delays and other problems associated with paper-based processing. (Note: DoD is developing automated submission, review, and approval processes. When they become available, their use is strongly encouraged. The automated submission process will standardize the format and required content of payment requests.)

Contracting officers should consult with the payment disbursement office—normally the Defense Finance and Accounting Service (DFAS)— as well as the ACO, when designing the contract's PBP processing structure. Electronic signature should be used when it becomes available.

Contractor PBP requests may not be submitted more often than monthly. This does not mean, however, that a monthly request cannot cover payment for more than one payment event. Payment requests must clearly identify the event or events covered by the monthly submission, must refer to the applicable contract provision so that the amount to be paid can be unambiguously determined and include prescribed certification. Appendix F contains a BEST PRACTICE example of a completed request for payment.

Payment requests submitted to the reviewing/approving office will be promptly reviewed and either rejected and returned to the contractor or approved and forwarded to the DFAS paying office.

Best Practices

On a single page, the format shown in Appendix E provides all the information required to document the events, valuation, and accounting required to make PBP execution easy for all parties and PBP financing a success story. We strongly encourage its use. Contained within Appendix F is the DFAS and Defense Industry Leaders jointly devel-

oped payment event format (with a completed sample request for payment) that will facilitate payment. Its use is also strongly encouraged.

Liquidation

PBPs are financing payments, as opposed to delivery payments. The Government recoups PBPs through deduction of liquidations from payments that would otherwise be due to the contractor for delivery of completed contract items. In the event of termination, any unliquidated PBPs must be returned to the government to the extent that they have not yet been earned through partial or complete performance. The contract must establish what the liquidation rates or amounts will be for PBPs when the contractor makes full or partial deliveries or performance. The contracting officer must specify the liquidation rates or amounts that will apply to deliveries made during the contract period and include that information in the contract.

Title to Property Acquired or Produced by Contractors

Just as with traditional progress payments, when it makes PBPs, the government takes title to all property acquired or produced under the contract. The purpose of doing so is to protect the government's financial interest in the payments made prior to partial or full delivery of the goods or services called for under the contract.

Because the contractor's financing payment requests do not contain or refer to any cost information (in contrast to the procedure when traditional progress payments are used), in the event of a termination, the contracting officer will have to get help from auditors and other administrative personnel to identify the specific property to which this ownership interest applies. When the contract has been fully performed and all deliveries have been made and accepted, title to any property not delivered to the government reverts to the contractor.

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CHAPTER SIX

Contract Changes and Modifications

Once the contract's PBP structure has been established, it may become necessary to adjust it to reflect subsequent changes or contract modifications. The required adjustments can take the form of adding new PBP events; modifying the definition, value, or timing of existing events; or making other modifications to reflect the agreements of the parties. Because each contract's PBP structure is unique, those changes will have to be made by a contract modification.

From a review of actual contracts that have used PBP, we find that there are at least two ways in which changes have been handled as they affect the PBP structure. In some cases, adding new PBP events to cover the new or modified effort can most effectively accommodate the changed or added work. In other cases, the existing event definitions, measurement methods, or values have simply been modified to encompass the changes. Either method is acceptable, and the parties should seek to use whichever is administratively most expedient.

Remember that the payment office responsible for the contract must be kept fully informed about changes to the PBP structure. Without up-to-date and complete contract information, that office will be unable to process the payments properly. Unnecessary delays in payment or erroneous payment may result if the paying office record is not properly maintained. Whenever changes are made to the contract's PBP structure, a revised summary form should be completed and quickly distributed to all parties having a role in making or overseeing payments.

Once again, the suggested form for summarizing the PBP structure shown in Appendix E offers a good mechanism for documenting and quickly communicating essential changes in the contract's PBP structure to those organizations and personnel likely to be affected by them.

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APPENDIX A

USD(AT&L) PBP Policy

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

ACQUISITION AND TECHNOLOGY

NOV 13 2000

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
COMPONENT ACQUISITION EXECUTIVES
DIRECTORS, DEFENSE AGENCIES

SUBJECT: Use of Performance-Based Payments (PBP)

The Department has had the authority to make performance-based payments to contractors under sole source fixed-price contracts for several years, but with the exception of their significant use with "other transactions," this financing technique has not been used widely. Recently, the Federal Acquisition Regulation was changed to remove the prohibition on using PBPs on research and development and competitively negotiated acquisitions, and to permit prime contractors with cost type contracts to use PBPs on fixed-price subcontracts (FAC 97-16).

There are many significant advantages to be gained from the use of PBPs instead of cost-based progress payments. The Department must take maximum advantage of the benefits of performance-based payments as the preferred means of providing contract financing under fixed-price contracts by making this form of payment the primary and most commonly used form of contract financing. For fiscal year 2002, we must ensure PBP is the primary form of contract financing in at least 25% of contracts valued at $2 million or more. By fiscal year 2005, this method of financing should be the most prevalent form used in fixed-price contracts, such as those for complex services or for production efforts.

In fiscal year 1999, there were 195 contract actions valued at $5.6B that used this form of contract financing. By fiscal year 2005, this method of financing should be used in most contracts that provide financing. Exceptions to the use of this contract financing technique should only be agreed to by the contracting officer when supported by a sound business case justification. The attached summarizes PBP policy and lessons learned.

As with many of the acquisition reforms that we are pursuing, changing the predominant way we provide financing payments under fixed price contracts will require all of us to become more sophisticated customers. To that end, I have directed the Deputy Under Secretary of Defense for Acquisition Reform to lead the development and distribution of a guidance document that will assist contracting officers and program managers in the selection and valuation of meaningful technical progress indicators to use in conjunction with performance-based financing payments. I look forward to your enthusiastic and effective implementation of the actions necessary to successfully transition our contract financing practices to this new paradigm.

J. S. Gansler

Attachment:
As stated

The Case for Performance-Based Payment (PBP)

Policy—Statute and Regulation

The authority to make performance-based payments to contractors resides in 10 U.S.C. 2307(b), which states: "Whenever practicable, payments under subsection (a) shall be made on any of the following bases:

(1) Performance measured by objective, quantifiable methods such as delivery of acceptable items, work measurement, or statistical process controls.

(2) Accomplishment of events defined in the program management plan.

(3) Other quantifiable measures of results."

This statutory authority implemented in FAR Subpart 32.10 states: "Performance-based payments are *the preferred Government financing method* when the contracting officer finds them practical, and the contractor agrees to their use."

Advantages of Using PBP

Using PBP as the principal method of furnishing contract financing under fixed-price contracts has many potential benefits for both the Government and contractors. Among them are the following:

Enhanced Technical and Schedule Focus.

PBP focuses attention on the accomplishment of meaningful and measurable technical progress and on meeting program schedule commitments. By contrast, cost-based progress payments reward incurring cost with only a tangential relationship between those costs and actual, demonstrable progress and schedule results. By linking a contractor's financing payment to critical aspects of technical and schedule performance prior to contract award, PBP reinforces the primacy of technical and schedule connectivity for successful performance. To be successful, parties need to negotiate, at the time of contract formation, the events or accomplishments to be measured, how those measurements will be made, and what value these events or accomplishments will have for financing payment purposes. Thus, both parties will have, in effect, converted appropriate portions of the program plan and schedule into meaningful criteria that will be used throughout the life of the contract to make financing payments. Financing payments will occur only when meaningful, objectively determinable performance accomplishments are achieved.

Broadened Contractor Participation.

Traditional cost-based progress payments can only be used with those contractors that have approved accounting systems. This practice may unintentionally reduce the array of potential contractors with whom the Department can do business. When PBPs are

used, however, the contractor's accounting system is no longer a precondition of the financial relationship between the parties. Many of today's leading technology firms do not regularly perform under Government contracts and, therefore, have no need for government-compliant accounting systems. Use of PBP allows the Department to eliminate one potential barrier to wider supplier participation in the Defense marketplace.

Reduced Cost of Administration and Streamlined Oversight.

Reductions in the oversight and compliance costs of both the Government and contractors are feasible when using PBP. Because the accounting system is not an integral part of the contract financing process, the Government does not require auditors to review payment requests for accounting consistency and compliance with oversight systems, such as cost principles and material management accounting systems. Similarly, contractors' financing requests are event- or accomplishment-driven and contain no financial information that must be prepared according to financial regulations and practices dictated by the Government. Both parties should be able to reduce non-value-added cost-based oversight.

Enhanced and Reinforced Roles of Program Managers and IPTs.

PBP is a management tool that allows the program manager to link financing to performance in fixed-price contracts because the contractor is entitled to agreed-upon payments only when specific measurable events have been accomplished. The IPT, composed of government program management, contracting officer, technical and logistic managers, Defense Contract Management Agency (DCMA) and the respective contractor team members jointly develops the PBP plan.

The program manager, supported by IPT members, gives the "thumbs up or down" regarding the assessment of the contractor's technical and schedule results. "Thumbs-up," the program manager verifies to the contracting officer that the contractor is meeting the event requirement and is entitled to payment in accordance with the jointly agreed-to performance schedule. "Thumbs-down," the contractor does not receive payment for that event. The Government's business and technical managers are directly involved in all aspects of the process.

PBP is in effect "self policing" because the contractor is entitled to the agreed-upon payments *only when* it accomplishes the paying event and the program manager confirms it before the disbursement is made.

Competition Considerations.

In a competition where the solicitation invites offerors to propose PBPs, the contracting officer should ensure that each offeror's PBPs comply with FAR 32.1004 and are reasonable and consistent with other technical and cost information in the offeror's proposal. If the contracting officer anticipates that the cost of providing PBPs will have a significant impact on the selection of the best-value offer, the solicitation should provide

for the adjustment of proposed prices to reflect the estimated cost to the Government of providing each offeror's proposed PBPs.

Cash-Flow Advantages.

Structuring effective performance-based events or accomplishments can provide significant cash-flow advantages to a successfully performing contractor. PBP can, under current FAR provisions, be made for up to 90 percent of the contract or line item's price, whereas cost-based progress payments are currently limited to a fixed percentage of incurred costs (currently 75 percent). This can be advantageous from a cash flow perspective. For instance, assume a fixed-price contract for $10.0 million that has a potential profit of 15 percent as negotiated and one deliverable item. Under PBP, the total amount financed could be as much as $9.0 million. Using the current progress payment limit of 75 percent, traditional cost-based progress payments could amount to slightly more than $6.5 million. The difference in cash flow over the life of the contract is $2.5 million, or a 38 percent improvement with PBP over traditional progress payments. Conversely, if significant technical or schedule accomplishments are not being achieved as originally contemplated, the contractor's cash flow picture can be markedly disadvantaged under PBP versus traditional progress payments. However, this is another reason why the Government should prefer to use PBP as another means to motivate good performance by its contractors and realistic technical and schedule plans by both parties.

Importance of Realistic Performance Milestones.

While it is important to ensure that performance-based payment triggering events be carefully chosen to reflect meaningful contract progress, it is important to keep in mind that the events are being selected to make financing payments. To this end, acquisition personnel should consider that, during the early stages of a project, the contractor's rate of expenditure might be high. Therefore, selection of meaningful payment milestones and values during the early phases of a contract is necessary to ensure that the contractor's cash flow needs are adequately addressed. Experience has shown that early performance-based payments are important to motivate contractor effort and assist in meeting the cash flow needs that typically arise during the early stages of performance. However, contracting officers should also ensure that PBPs not be structured to result in payments that are in excess of the expected value of performance events, and that they not be designed to result in an unreasonably low level of contractor investment in the contract.

Are There Any Drawbacks?

Effective planning is key to success, and decisions and agreements must be reached during the contract formation phase. The parties have to identify and agree upon which events or accomplishments will be used as a basis for contract financing payments, how they will be measured or confirmed, and the values of the events. In reality, however, all programs have projected technical plans and schedules when the contract is being negotiated so the parties could agree upon milestones that will become the basis for

PBP. Setting valuations for the events selected is a unique requirement under a PBP approach. However, even this added activity has a beneficial impact in clearly setting technical and schedule success as the key contract goals. It is important to remember that PBP is a financing tool that is available only for use under fixed-price contracts, so the degree of uncertainty for price and schedule commitments should be low. In order to use PBP effectively, guidance and focused training on the selection and valuation of meaningful payment events is critical. This guide is available for the acquisition workforce on the Acquisition Reform Web page (www.acq.osd.mil). A distance learning module is also under development and will be reviewed with the Services prior to release to the workforce.

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APPENDIX B

Selected Excerpts From Statute and Regulation

United States Code Title 10 Section 2307—Contract financing

(a) Payment Authority. The head of any agency may—

(1) make advance, partial, progress, or other payments under contracts for property or services made by the agency; and

(2) insert in solicitations for procurement of property or services a provision limiting to small business concerns advance or progress payments.

(b) Performance-Based Payments. Whenever practicable, payments under subsection (a) shall be made on any of the following bases:

(1) Performance measured by objective, quantifiable methods such as delivery of acceptable items, work measurement, or statistical process controls.

(2) Accomplishment of events defined in the program management plan.

(3) Other quantifiable measures of results. [emphasis added]

* * * *

Federal Acquisition Regulation Part 32 – Contract Financing

32.102(f) Performance-based payments are contract financing payments made on the basis of—

(1) Performance measured by objective, quantifiable methods;

(2) Accomplishment of defined events; or

(3) Other quantifiable measures of results.

32.104(a) Prudent contract financing can be a useful working tool in Government acquisition by expediting the performance of essential contracts. Contracting officers must consider the criteria in this part in determining whether to include contract financing in solicitations and contracts. Resolve reasonable doubts by including contract financing in the solicitation.

* * * *

32.104(d) Unless otherwise authorized by agency procedures, the contracting officer may provide contract financing in the form of performance-based payments (see subpart 32.10) or customary progress payments (see subpart 32.5) if the following conditions are met:

(1) The contractor—

(i) Will not be able to bill for the first delivery of products for a substantial time after work must begin (normally 4 months or more for small business concerns, and 6 months or more for others), and will make expenditures for contract performance during the predelivery period that have a significant impact on the contractor's working capital; or

(ii) Demonstrates actual financial need or the unavailability of private financing.

(2) If the contractor is not a small business concern—

(i) For an individual contract, the contract price is $2 million or more; or

(ii) For an indefinite-delivery contract, a basic ordering agreement or a similar ordering instrument, the contracting officer expects the aggregate value of orders or contracts that individually exceed the simplified acquisition threshold to have a total value or $2 million or more. The contracting officer must limit financing to those orders or contracts that exceed the simplified acquisition threshold.

Subpart 32.10 – Performance-Based Payments

32.1001—Policy.

(a) Performance-based payments are *the preferred Government financing method* when the contracting officer finds them practical, and the contractor agrees to their use. *[emphasis added]*

(b) Performance-based payments are contract financing payments that are not payment for accepted items.

(c) Performance-based payments are fully recoverable, in the same manner as progress payments, in the event of default. Except as provided in 32.1003(c), the contracting officer must not use performance-based payments when other forms of contract financing are provided.

(d) For Government accounting purposes, the Government should treat performance-based payments like progress payments based on costs under subpart 32.5.

(e) Performance-based payments are contract financing payments and, therefore, are not subject to the interest-penalty provisions of prompt payment [emphasis added] (see subpart 32.9). However, each agency must make these payments in accordance with the agency's policy for prompt payment of contract financing payments.

32.1002—Bases for performance-based payments.

Performance-based payments may be made on any of the following bases—

(a) Performance measured by objective, quantifiable methods;

(b) Accomplishment of defined events; or

(c) Other quantifiable measures of results.

32.1004—Procedures.

Performance-based payments may be made either on a whole contract or on a deliverable item basis, unless otherwise prescribed by agency regulations. Financing payments to be made on a whole contract basis are applicable to the entire contract, and not to specific deliverable items. Financing payments to be made on a deliverable item basis are applicable to a specific individual deliverable item. (A deliverable item for these purposes is a separate item with a distinct unit price. Thus, a contract line item for 10 airplanes, with a unit price of $1,000,000 each, has 10 deliverable items—the separate planes. A contract line item for 1 lot of 10 airplanes, with a lot price of $10,000,000, has only one deliverable item—the lot.)

(a) Establishing performance bases.

(1) The basis for performance-based payments may be either specifically described events (e.g., milestones) or some measurable criterion of performance. Each event or performance criterion that will trigger a finance payment must be an integral and necessary part of contract performance and must be identified in the contract, along with a description of what constitutes successful performance of the event or attainment of the performance criterion. The signing of contracts or modifications, the exercise of options, or other such actions must not be events or criteria for performance-based payments. An event need not be a critical event in order to trigger a payment, but the Government must be able to readily verify successful performance of each such event or performance criterion. [emphasis added]

(2) Events or criteria may be either severable or cumulative. The successful completion of a severable event or criterion is independent of the accomplishment of any other event or criterion. Conversely, the successful accomplishment of a cumulative event or criterion is dependent upon the previous accomplishment of another event. A contract may provide for

more than one series of severable and/or cumulative performance events or criteria performed in parallel

* * * *

(b) Establishing performance-based finance payment amounts.

(1) The contracting officer must establish a complete, fully defined schedule of events or performance criteria and payment amounts when negotiating contract terms. If a contract action significantly affects the price, or event or performance criterion, the contracting officer responsible for pricing the contract modification must adjust the performance-based payment schedule appropriately.

(2) Total performance-based payments must—

(i) Reflect prudent contract financing provided only to the extent needed for contract performance (see 32.104(a)); and

(ii) Not exceed 90 percent of the contract price if on a whole contract basis, or 90 percent of the delivery item price if on a delivery item basis.

* * * *

(4) Unless agency procedures prescribe the bases for establishing performance-based payment amounts, contracting officers may establish them on any rational basis, including (but not limited to)—

(i) Engineering estimates of stages of completion;

(ii) Engineering estimates of hours or other measures of effort to be expended in performance of an event or achievement of a performance criterion; or

(iii) The estimated projected cost of performance of particular events.

(5) When subsequent contract modifications are issued, the contracting officer must adjust the performance-based payment schedule as necessary to reflect the actions required by those contract modifications.

* * * *

(d) Liquidating performance-based finance payments. Performance-based amounts must be liquidated by deducting a percentage or a designated dollar amount from the delivery payments. The contracting officer must specify the liquidation rate or desig-

nated dollar amount in the contract. The method of liquidation must ensure complete liquidation no later than final payment.

(1) If the contracting officer establishes the performance-based payments on a delivery item basis, the liquidation amount for each line item is the percent of that delivery item price that was previously paid under performance-based finance payments or the designated dollar amount.

(2) If the performance-based finance payments are on a whole contract basis, liquidation is by predesignated liquidation amounts or liquidation percentages.

Federal Acquisition Regulation Part 52 — Solicitation Provisions and Contract Clauses

52.232-32—Performance-Based Payments.

(a) Amount of payments and limitations on payments. Subject to such other limitations and conditions as are specified in this contract and this clause, the amount of payments and limitations on payments shall be specified in the contract's description of the basis for payment.

(b) Contractor request for performance-based payment. The Contractor may submit requests for payment of performance-based payments not more frequently than monthly, in a form and manner acceptable to the Contracting Officer. Unless otherwise authorized by the Contracting Officer, all performance-based payments in any period for which payment is being requested shall be included in a single request, appropriately itemized and totaled.

* * * *

(c) Approval and payment of requests.

(1) The Contractor shall not be entitled to payment of a request for performance-based payment prior to successful accomplishment of the event or performance criterion for which payment is requested.

* * * *

(3) The approval by the Contracting Officer of a request for performance-based payment does not constitute an acceptance by the Government and does not excuse the Contractor from performance of obligations under this contract.

(d) Liquidation of performance-based payments.

(1) Performance-based finance amounts paid prior to payment for delivery of an item shall be liquidated by deducting a percentage or a designated dollar amount from the delivery payment. If the performance-based finance payments are on a delivery item basis, the liquidation amount for each such line item shall be the percent of that delivery item price that was previously paid under performance-

based finance payments or the designated dollar amount. If the performance-based finance payments are on a whole contract basis, liquidation shall be by either predesignated liquidation amounts or a liquidation percentage.

* * * *

(f) Title.

(1) Title to the property described in this paragraph (f) shall vest in the Government. Vestiture shall be immediately upon the date of the first performance-based payment under this contract, for property acquired or produced before that date. Otherwise, vestiture shall occur when the property is or should have been allocable or properly chargeable to this contract

* * * *

(6) When the Contractor completes all of the obligations under this contract, including liquidation of all performance-based payments, title shall vest in the Contractor for all property (or the proceeds thereof) not—

(i) Delivered to, and accepted by, the Government under this contract; or

(ii) Incorporated in supplies delivered to, and accepted by, the Government under this contract and to which title is vested in the Government under this clause.

(7) The terms of this contract concerning liability for Government-furnished property shall not apply to property to which the Government acquired title solely under this clause.

* * * *

(i) Reports and Government access. The Contractor shall promptly furnish reports, certificates, financial statements, and other pertinent information requested by the Contracting Officer for the administration of this clause and to determine that an event or other criterion prompting a financing payment has been successfully accomplished. The Contractor shall give the Government reasonable opportunity to examine and verify the Contractor's records and to examine and verify the Contractor's performance of this contract for administration of this clause.

(j) Special terms regarding default. If this contract is terminated under the Default clause,

(1) the Contractor shall, on demand, repay to the Government the amount of unliquidated performance-based payments, and

(2) title shall vest in the Contractor, on full liquidation of all performance-based payments, for all property for which the Government elects not to require delivery under the Default clause of this contract. The Government shall be liable for no payment except as provided by the Default clause.

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APPENDIX C

Three Examples of PBP Use

PBP Example for a Hardware Production Program

Overview:

The government intends to procure a total of 60 production aircraft over a period of several years. The aircraft has already gone through separate development, with a total of 5 prototype aircraft being acquired under an RDT&E program. The prototype aircraft have been through the DT&E and OT&E phases, and a final production configuration has been established. Production of the 60 aircraft will take place under a multiple-year production program, including advance procurement requirements. The optimal lot size for a production buy is 15 aircraft per year. The total procurement requirement is budgeted to be completed in four years. The first production lot buy will be accompanied by a concurrent nonrecurring effort that is intended to assess the structural life of the main airframe. This testing is to be performed using (as government-furnished property) one of the airframes built during the program's development phase. Before production can begin, the contractor will have to place orders for long lead items and will have to fabricate final tooling sufficient to support a production rate of two aircraft per month.

The prices agreed to for the recurring and non-recurring activities to take place under the contract are as follows:

Production Lots:

CLIN	Lot #	# of Aircraft	Unit Price	Total Price
0001	1	15	$10,000,000	$150,000,000
0004 (option)	2	15	$9,750,000	$146,250,000
0005 (option)	3	15	$9,600,000	$144,000,000
0006 (option)	4	15	$9,500,000	$142,500,000

Non-Recurring Activities:

CLIN	Description	Price
0002	Fabricate production tooling	$15,000,000
0003	Perform airframe life tests	$10,000,000

Performance Events:

As a part of the contract negotiation process, the parties defined a series of six events or accomplishments that would be used as PBP payments for the aircraft production activities on a per-aircraft basis and another set of four events for each of the non-recurring activities. In addition, for each PBP event agreed upon, the parties also established the manner in which the accomplishment of each PBP payment event would be determined and the value that each event would have for contract financing purposes. A liquidation rate of 90% was established for all final aircraft deliveries within a given production lot until all aircraft in each lot were delivered and accepted. Upon successful completion of each of the two non-recurring activities, all prior PBPs for those activities would be fully liquidated at the time when final payments for those specific activities are made. The PBP event definitions, accomplishment metrics, and values are set forth as attachments to the contract as shown on the following pages.

Performance-Based Payments — Aircraft

(Recurring events on a per-aircraft basis)

Event no.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value (stated as % of item unit price)
1	S	Rough machining of main landing gear bulkhead frames	Completion of one set of four main landing gear bulkhead frames through the initial numerically controlled machining stage.	Floor check performed by DCMA representative to ensure rough machining has been completed.	10%
2	S	Receipt of aft pressure bulkhead details	Ninety-five percent (95%) of the details received for the aft pressure bulkhead.	Verification through inventory check and documentation review by DCMA representatives.	15%
3	S	Completion of wing spars	Wing spars moved out of assembly tooling and 95% of the planned standards completed.	Event assembly order signed and stamped by contractor production control and DCMA representatives.	15%
4	C	Completion of wing half subassemblies	Wing halves moved out of assembly department tooling and prepared for wing join. 95% of department planned standards completed. Completion of this event is dependent upon the completion of event #3.	Event assembly order signed and stamped by contractor production control and DCMA representatives.	20%
5	C	Completion of forward, center, aft, and wing sections	All four major aircraft subassemblies moved out of their respective assembly departments. 95% of the total sum of planned standards completed in the four assembly departments. Completion of this event is dependent upon the completion of event #4.	Event assembly order signed and stamped by contractor production control and DCMA representatives.	20%

Event no.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value (stated as % of item unit price)
6	C	Completion of final assembly	Assembled aircraft moved from final assembly station with 95% of planned standards completed. Completion of this event is dependent upon completion of event #5	Event assembly order signed and stamped by contractor production control and DCMA representatives.	10%

Note: Aircraft delivery and acceptance is signified by a signed DD 250 by the resident DCMA representative. All the previously made performance-based payments for that aircraft will be liquidated. Upon delivery the final aircraft in each lot, all previously unliquidated performance-based payments will be fully liquidated.

Performance-Based Payments – Production Tooling

Event no.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value (stated as % of item unit price)
1	S	Completion of main landing gear bulkhead tooling.	Completion of all planned standards for the tooling fabrication and assembly.	Event assembly order signed off by contractor production control representative.	30%
2	S	Completion of wing spar tooling.	Completion of all planned standards for the tooling fabrication and assembly.	Event assembly order signed off by contractor production control representative.	30%
3	S	Completion of forward, center, and aft fuselage tooling.	Completion of all planned standards for the tooling fabrication and assembly.	Event assembly order signed off by contractor production control representative.	30%

Note: PBPs will be fully liquidated upon delivery of the production tooling.

Performance-Based Payments – Airframe Life Tests

Event no.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value (stated as % of item unit price)
1	S	Airframe Life Testing Plan	Completion and submission of the airframe life test plan and schedule.	Approval of the airframe life test plan by the Program Office	15%

2	C	Completion of structural stress tests.	All planned elements of the airframe structural stress testing have been completed and documented. Completion of this event is conditioned upon completion of event #1.	Approval of structural stress testing report by the Program Office.	25%
3	C	Completion of airframe corrosion tests.	All planned elements of the airframe corrosion testing have been completed and documented. Completion of this event is conditioned upon completion of event #1.	Approval of the corrosion testing report by the Program Office.	25%
4	C	Completion of report on design recommendations to address findings from structural and corrosion tests.	All adverse findings from the structural stress and corrosion testing are covered by recommendations for design improvements to correct the deficiencies found. Completion of this event is conditioned upon the completion of events 1, 2, and 3	Submission of the design change recommendation report by the Program Office.	25%

Note: The final deliverable for this CLIN is a set of detailed designs for fixes to correct the deficiencies found during the airframe testing program. Final payment of the balance of the price of this CLIN will occur following acceptance of the designs submitted. Upon final payment, all previously made performance-based payments will be fully liquidated.

PBP Example for a Services Program

Overview:

The government has not been achieving the levels of mission availability that it desires for a new family of tracked vehicles that are now deployed worldwide. The primary cause for this lower-than-expected performance has been shown to be problems in the logistic support of some of the specialized maintenance equipment that is unique to this new class of vehicle. Following a full and open competition, a contractor has been selected to perform a detailed evaluation of the current approach to worldwide logistics support of this critical equipment, to identify modifications to existing item management systems necessary to improve asset visibility, and to implement those modifications at both the centralized asset management office and the regional deployment locations. The work is to be completed in 30 months. The price of the entire effort is $8.5 million.

Performance Events:

The parties negotiated and agreed upon the following performance events for providing contract financing over the term of this effort:

Event No.	Description
1	Submission of data analysis plan for evaluating recent mission capability rate performance.
2	Completion of the assessment of current asset management systems.
3	Completion of 20% of the estimated software code modifications.
4	Completion of 80% of the estimated software code modifications.
5	Completion of end-to-end test of modified software code.
6	Completion of software modification implementation plan for central and regional installations.
7	Completion of central installation software code implementation.
8	Completion of 50% of regional installation software code implementation.
9	Completion of all regional installation software code implementation.

The verification procedures and values agreed upon for these performance-based payment events are shown in the following table:

Performance-Based Payments

Event No.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value
1	S	Submission of data analysis plan for evaluating recent mission capability rate performance.	Submit the plan for data analysis.	Receipt of the plan by the Program Manager.	$500,000
2	S	Completion of the assessment of current asset management systems.	Submit report on assessment of the performance and operation of the current asset management systems and an estimate of the amount of software code modifications required.	Receipt of the report by the Program Manager.	$500,000
3	S	Completion of 20% of the estimated software code development and testing efforts.	% complete on each element in work breakdown structure (at CLIN level) based on # of actuals that pass functional test.	Modules/units tested to plan. Verification of test records by DCMA representative.	$500,000
4	C	Completion of 80% of the estimated software code development and testing efforts.	% complete on each element in work breakdown structure (at CLIN level) based on # of actuals that pass functional test.	Modules/units tested to plan. Verification of test records by DCMA representative.	$2,000,000
5	C	Completion of end-to-end test of modified software code.	Perform full system test of the asset management system containing all code modifications. Completion of this event is conditioned upon the completion of events 3 and 4.	Verification of successful test completion by the Program Management Office's Software System Manager.	$1,000,000
6	S	Completion of software modification implementation plan for central and regional installations.	Prepare software implementation plan and schedule for all installations contemplated.	Receipt of the plan and schedule by the Program Manager.	$500,000
7	C	Completion of central installation software code implementation.	Install and run performance validation tests on all software systems in which code modifications	Acceptance of software installation by the Program Management Office's System Software	$1,500,000

Event No.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value
			have been installed. Completion of this event is conditioned upon the completion of event #6	Manager.	
8	S	Completion of 50% of regional installation software code implementation.	Install and run performance validation tests on all software systems in which code modifications have been installed.	Acceptance of software installation by unit responsible official at 50% of worldwide locations.	$575,000
9	C	Completion of all regional installation software code implementation.	Install and run performance validation tests on all software systems in which code modifications have been installed. Completion of this event is conditioned upon the completion of event #8.	Acceptance of software installation by unit responsible official at all worldwide locations.	$575,000

NOTE: Final payment will be made upon delivery and acceptance of all final documentation for the software and operating procedure modifications developed under the contract.

PBP Example for a Research and Development Program

Overview:

The government is developing, under a program being performed by a large defense contractor, a new class of small, stealthy amphibious craft to use in coastal deployments of Special Forces in high-tension areas. A small company has successfully completed a related set of Small Business Innovation Research (SBIR) program efforts (both Phases I and II) to develop the hardware and software for a hand-held piece of specialized test equipment that can be used to measure the radar signature properties of the material used to form the hull and superstructure of these small craft. To date, this small firm has demonstrated the utility of such a device in laboratory settings using hardware and software developed for concept demonstration purposes only. Now, the government wishes to have this firm develop a pre-production prototype of this hand-held device and demonstrate its practical utility in field conditions on a government-furnished full-scale version of the amphibious craft. A sole source, fixed-price contract based upon the proprietary information developed under Phases I and II has been negotiated for the development and demonstration of the pre-production prototype.

The prices agreed to for the work to take place under the contract are as follows:

CLIN	Description	Price
0001	Pre-production prototype software	$2,500,000
0002	Pre-production prototype hardware	$4,000,000
0003	Field testing using GFE	$2,000,000
0004	Final production hardware and software designs and recurring price estimate	$1,500,000

Performance Events:

The parties agreed upon a series of performance events that will form the basis for the contract financing to be provided under this contract. The testing will be performed at a government installation using a government-furnished test watercraft and will involve the efforts of government personnel, the watercraft prime contractor, and personnel from the small business developer of the test device. Final payments under CLINs 0001 and 0002 will take place upon the start of the field testing activities. At that time, all previously made performance-based payments for those CLINs will be liquidated. The contractor will receive final payment for the activities under CLIN 0003 upon submission of the field testing report. At that time, all previously made performance-based payments for that CLIN will be fully liquidated. Final payment for CLIN 0004 will be made upon final acceptance of the production design documentation and production price estimates. At that time, all previously made performance-based payments will be fully liquidated. The PBP event definitions, accomplishment metrics, and values are set forth as attachments to the contract as shown on the following pages.

Performance-Based Payments

CLIN	Event no.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value
0001	1	S	Submission of software development plan.	Submit plan and schedule for development of all software for preproduction prototype.	Receipt of software development plan by the Program Manager.	$500,000
0001	2	C	Completion of 25% of estimated code.	Complete development of 25% of the amount of code estimated to be required as set forth in the software development plan. Completion of this event is conditioned upon the completion of event #1.	Certification by the contractor as to percentage of estimated code completed.	$500,000
0001	3	C	Completion of 50% of estimated code.	Complete development of 50% of the amount of code estimated to be required as set forth in the software development plan. Completion of this event is conditioned upon the completion of events 1 and 2.	Certification by the contractor as to percentage of estimated code completed.	$750,000
0001	4	C	Completion of 75% of estimated code.	Complete development of 75% of the amount of code estimated to be required as set forth in the software development plan. Completion of this event is conditioned upon the completion of events 1,2, and 3.	Certification by the contractor as to percentage of estimated code completed.	$500,000
0002	5	S	Order long-lead items.	Place orders for all long-lead	Certification by contractor.	$500,000

CLIN	Event no.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value
				hardware items.		
0002	6	S	Completion of chassis machining.	Pre-production prototype chassis machining completed and accepted by contractor.	Sign-off by contractor and verification of receipt of completed chassis machining by DCMA representative.	$1,000,000
0002	7	C	Completion of electrical assembly.	All electrical assemblies have been completed and tested as required at the subassembly level. Completion of this event is conditioned upon the completion of event #5.	Sign-off by contractor's production supervisor and verified by DCMA representative.	$1,500,000
0002	8	C	Completion of prototype device assembly.	All electrical and mechanical components have been assembled into the chassis and the prototype device is ready for testing at the system level. Completion of this event is conditioned upon the completion of events 5, 6, and 7.	Sign-off by contractor's production supervisor and verified by DCMA representative.	$600,000
0003	9	S	Completion of field testing plan and schedule.	Submit plan for all field testing and the schedule for the conduct of all field tests, including the required participation of government and watercraft prime contractor personnel.	Receipt of field testing plan by the Program Manager.	$200,000
0003	10	C	On-site test walk-thru orientation.	Complete a walk-thru at the test site with all test participants and all government-	Verification by the government's designated test director.	$500,000

CLIN	Event no.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value
				and contractor-provided equipment in place. Completion of this event is conditioned upon the completion of event #9.		
0003	11	C	Completion of 50% of all planned tests.	Completion of at least 50% of the planned testing as set forth in the test plan. Completion of this event is conditioned upon the completion of event #10.	Verification by the government's designated test director.	$550,000
0003	12	C	Completion of all planned tests.	Completion of all of the planned testing as set forth in the test plan. Completion of this event is conditioned upon the completion of event #11.	Verification by the government's designated test director.	$550,000
0004	13	S	Completion of 50% of production software.	Completion of at least 50% of the planned production software.	Certification by contractor.	$150,000
0004	14	S	Completion of 25% of production hardware design	Completion of at least 25% of the designs for the production version of the testing device.	Certification by contractor.	$350,000
0004	15	C	Completion of all production software.	Completion and testing of all software code for the production version of the device. Completion of this event is conditioned upon the completion of event #14.	Software test witnessed by DCMA representative.	$150,000
0004	16	C	Completion of 50% of production hardware	Completion of at least 50% of the designs for the	Certification by contractor.	$350,000

CLIN	Event no.	Event type (severable (S) or cumulative (C))	Description	Accomplishment expected	Method of verification	Event value
			design.	production version of the testing device. Completion of this event is conditioned upon the completion of event #14		
0004	17	C	Completion of all production hardware design.	Completion of all of the designs for the production version of the testing device. Completion of this event is conditioned upon the completion of event #16.	Certification by contractor and concurrence by DCMA representative.	$350,000

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APPENDIX D

The Defense Contract Management Agency

The Defense Contract Management Agency (DCMA) provides key, on-site contract administration and technical support at many locations worldwide and is the eyes and ears for program managers who are not located near their contractors. For PBP, DCMA plays a critical team role in event verification and payment approval. The technical staff members, with their day-to-day understanding of the contractor's processes, verify event completion by utilizing the appropriate method for the applicable event. On the basis of that recommendation, the administrative contracting officer (ACO) approves the event for payment and requests the Defense Finance and Accounting Service (DFAS) to issue the contractor payment for the predetermined amount. Because DCMA is at that critical nexus in the payment process where payment for performance is reviewed and/or approved, DCMA's participation and understanding of event description and valuation during contract formulation are requisite for the successful implementation of PBP. For contract administration details see site: http://www.dcma.mil/

Defense Finance and Accounting Service

The Defense Finance and Accounting Service (DFAS) is responsible for the payment of contracts administered by the Defense Contract Management Agency (DCMA) through the Mechanization of Contract Administration Services (MOCAS) payment system, disbursing more than $73 billion annually to pay 1 million invoices on 363,000 Department of Defense (DoD) contracts. For PBPs, DFAS contract entitlement staff work diligently in cooperation with DCMA administrative contracting officers (ACOs) to issue payment based upon event completion, verification, and payment approval. Because of the criticality to pay PBP invoices as timely as possible, DFAS has system automations in place within MOCAS to expedite the payment process for PBPs, ultimately benefiting our contractor customer base. For more information about DFAS and/or contract payments, please visit; http://www.dfas.mil

The Defense Contract Audit Agency (DCAA)

The Defense Contract Audit Agency, under the authority, direction, and control of the Under Secretary of Defense (Comptroller) responsible for performing all contract audits for the Department of Defense, and providing accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts. DCAA also provides contract audit services to some other Government Agencies. For auditing assistance, refer to: http://www.dcaa.mil

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APPENDIX E

Recommended PBP Contract Summary Form

Performance-Based Payment Record

PIIN:	Order No.:		Page __ of __
Contract#:	Current through Modification No.:	Dated:	

PBP event #	CLIN/ subCLIN	ACRN	Type (S or C)	Brief Event Description	Value	Expected date

PERFORMANCE BASED PAYMENT REQUEST

PBP Form Master Rev E 7/2001

Page 1 of 2

1. Payment Office Address	2. Contractor Name/Address	3a. Contract No.:	3b. Order No.:
DFAS	Contractor Name Contractor Street Address Contractor Street Address Contractor's City, ST Zip +4 (Area Code) Phone No. & Fax No.	4. Shipment No.: 5. Invoice No.: 6. Invoice Date: 7. Customer Code:	

8. CLIN	9. ACRN	10. EVENT	11. S/N	12. EVENT DESCRIPTION	13. QTY	14. AMOUNT PER EVENT	15. AMOUNT
				To charge the U.S. Government for completion of the following Performance Based Payment Event(s), in accordance with Basic contract			
						16. SUB-TOTAL	

17. CERTIFICATION: I certify to the best of my knowledge and belief that: 1) This request for performance-based payment is true and correct; this request (and attachments) has been prepared from the books and records of the contractor, in accordance with the contract and the instructions of the Contracting Officer; 2) (Except as reported in writing on _____), all payments to subcontractors and suppliers under this contract have been paid, or will be paid, currently, when due in the ordinary course of business; 3) There are no encumbrances (except as reported in writing on _____) against the property acquired or produced for, and allocated or properly chargeable to, the contract which would adversely affect or impair the government's title; 4) There has been no material adverse change in the financial conditions of the contractor since the submission by Contractor to the Government of the most recent written information dated _____ and; 5) Within the making of this requested performance-based payment, the amount of all payments for each deliverable item for which performance-based payments have been requested will not exceed any limitation in the contract, and the amount of all payments under the contract will not exceed any limitation in the contract.

Signed _____ Date _____

18. TOTAL AMOUNT REQUESTED ALL PAGES	
19. AMOUNT APPROVED FOR PAYMENT	

20. ACO Signature _____ Date Approved _____

ACRN INFORMATION SUPPLIED ON ATTACHED SCHEDULE

PERFORMANCE BASED PAYMENT REQUEST - CONTINUATION SHEET

PBP Form Master Rev E 7/2001

Page 2 of 2

1. Payment Office Address	2. Contractor Name/Address	3a. Contract No.:	3b. Order No.:
DFAS	Contractor Name Contractor Street Address Contractor Street Address Contractor's City, ST Zip +4 (Area Code) Phone No. & Fax No.	4. Shipment No.: 5. Invoice No.: 6. Invoice Date: 7. Customer Code:	

8. CLIN	9. ACRN	10. EVENT	11. SA	12. EVENT DESCRIPTION	13. QTY	14. AMOUNT PER EVENT	15. AMOUNT
				To charge the U.S. Government for completion of the following Performance Based Payment Event(s), in accordance with Basic contract			
						16. SUB-TOTAL	

PERFORMANCE BASED PAYMENT REQUEST

PBP Form Master Rev E 7/2001

Page 1 of 2

1. Payment Office Address	2. Contractor Name/Address	3a. Contract No.:	3b. Order No.:
DFAS-Columbus Center West Entitlement Operations P.O. Box 182381 Columbus, OH 43218-2381	Contractor Name Contractor Street Address Contractor Street Address Contractor's City, ST Zip +4 (Area Code) Phone No. & Fax No.	N00019-98-G-1234	5B77
		4. Shipment No.:	PBPA123
		5. Invoice No.:	9910-5555
		6. Invoice Date:	1/20/2000
		7. Customer Code:	

8. CLIN	9. ACRN	10. EVENT	11. S/C	12. EVENT DESCRIPTION	13. QTY	14. AMOUNT PER EVENT	15. AMOUNT
				To charge the U.S. Government for completion of the following Performance Based Payment Event(s), in accordance with Basic contract			
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	200	12,457,689.00	2,491,537,800.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	55,555,555.00	27,777,777,500.00
0001AB	CD	33	S	Center Barrel Completion	1	123,789.00	123,789.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	500	123,789.00	61,894,500.00
					16. SUB-TOTAL		32,134,152,989.00

17. CERTIFICATION: I certify to the best of my knowledge and belief that: If this request for performance-based payment is true and correct; this request and all attachments have been prepared from the books and records of the contractor, in accordance with the contract and the instructions of the Contracting Officer. If (Except as reported in writing on _____), all payments to subcontractors and suppliers under this contract have been paid, or will be paid, currently, when due in the ordinary course of business. If there are no unresolved causes (except as reported in writing on _____) required the properly completed and allowable as properly charged to, the contract which would affect or impair the government's title. If there has been no materially adverse change in the financial conditions of the contractor since the submission by Contractor to the Government of the most recent written information dated _____ and, If Within the making of this requested performance-based payment, the amount of all payments for each deliverable item for which performance-based payments have been requested will not exceed any limitation in the contract, and the amount of all payments under the contract will not exceed any limitation in the contract.

Signed _____ Date _____

18. TOTAL AMOUNT REQUESTED ALL PAGES	32,383,306,769.00
19. AMOUNT APPROVED FOR PAYMENT	**32,383,306,769.00**

20. ACO Signature _____ Date Approved _____

ACRN INFORMATION SUPPLIED ON ATTACHED SCHEDULE

PERFORMANCE BASED PAYMENT REQUEST - CONTINUATION SHEET

PBP Form Master Rev E 7/2001

Page 2 of 2

1. Payment Office Address
DFAS-Columbus Center
West Entitlement Operations
P.O. Box 182381
Columbus, OH 43218-2381

2. Contractor Name/Address
Contractor Name
Contractor Street Address
Contractor Street Address
Contractor's City, ST Zip +4
(Area Code) Phone No. & Fax No.

3a. Contract No.: N00019-98-G-1234
3b. Order No.: 5B77
4. Shipment No.: PBPA123
5. Invoice No.: 9910-5555
6. Invoice Date: 1/20/2000
7. Customer Code:

8. CLIN	9. ACRN	10. EVENT	11. S/N	12. EVENT DESCRIPTION	13. QTY	14. AMOUNT PER EVENT	15. AMOUNT
				To charge the U.S. Government for completion of the following Performance Based Payment Event(s), in accordance with Basic contract			
5555WW	AA	A-178	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
0001AB	CD	33	S	Center Barrel Completion	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
5555WW	AA	1	S	Lower Quarter Keel Kit - Aircraft FNC23	1	12,457,689.00	12,457,689.00
					16. SUB-TOTAL		249,153,780.00

ACRN SCHEDULE

1. Contractor Name/Address
Contractor Name
Contractor Street Address
Contractor Street Address
Contractor's City, ST Zip +4

Disbursement for this PBP Invoice should be made against the following ACRN(S)

Page 1 of 1

2a. Contract No.: N00019-98-G-1234	2b. Order No.: 5B77
3. Shipment No.:	PBPA123
4. Invoice No.:	9910-5555
5. Invoice Date:	01/20/00
6. Customer Code:	0

7. ACRN PAYMENT INSTRUCTION SUMMARY:

CLIN	AA	CD	BB	AB	CE	DG	INVOICE LINE ITEM TOTAL
0001AA	15,523,649.00		10,245,698.00				25,769,347.00
0001AA		10,245,698.00					10,245,698.00
0001AA				10,245,698.00			10,245,698.00
0001AA							0.00
0001AB					10,245,698.00		10,245,698.00
0001AC						10,245,698.00	10,245,698.00
							0.00
							0.00
							0.00
							0.00
							0.00
							0.00
ACRN TOTALS	15,523,649.00	10,245,698.00	10,245,698.00	10,245,698.00	10,245,698.00	10,245,698.00	66,752,139.00

Verification Total: 66,752,139.00

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT:

1	**Payment office Address**
2	**Contractor Name/Address -** Enter Contractor name & address. It is suggested to include a name and telephone number for a point of contract in case of questions.
3a	**Contract No. -** Enter the full contract number. (Format: 13 alphanumeric characters, XXXXXX-XX-X-XXXX)
3b	**Order No. -** Delivery order number (4 alphanumeric characters), if applicable.
4	**Shipment No. -** Must be 7 alphanumeric characters starting with PBPA (for U.S. disbursements) or PBPB (for FMS disbursements). The last three positions are numeric and should be serially numbered (e.g. PBPA001)
5	**Invoice No. -** For contractor use.
6	**Invoice Date -** For contractor use.
7	**Customer Code -** For contractor use.
8	**CLIN -** Enter the appropriate Contract Line Item Number (CLIN) as required by the contract.
9	**ACRN -** Enter each Accounting Classification Reference Number (ACRN) which funds the performance event.
10	**Event -** Enter the event identifier as shown in the contract.
11	**S/C -** Enter S if the event is severable (not dependent on other events) and C if the event is cumulative (dependent on prior completion of other events.)
12	**Event Description -** Enter description as appropriate.
13	**Qty -** For contractor use.
14	**Amount per event -** For contractor use.
15	**Amount -** Enter the total of all entries in the amount column.
16	**Sub-Total -** The individual page total
17	**Certification -** Contractor official authorized to bind the contractor shall complete and sign.
18	**Total amount requested--All Pages -** Enter the total of all entries in the amount column.
19	**Amount approved for payment -** For ACO use. Amount entered into payment system.
20	**ACO Signature** and **Date Approved**

ACRN Schedule Attachment Instructions

General : This information is prepared by the contractor and submitted to the ACO. The ACO may use this attachment as the instructions to be submitted to the payment office for distribution of financing payment.

1	**Contractor Name/Address -** Self Explanatory
3a	**Contract No. -** Enter the full contract number. (Format: 13 alphanumeric characters, XXXXXX-XX-X-XXXX)
3b	**Order No. -** Delivery order number (4 alphanumeric characters), if applicable.
3	**Shipment No. -** (same as for basic request)
4	**Invoice No. -** For contractor use
5	**Invoice date -**
6	**Customer Code -** For contractor use.
7	**Summary -** List ACRN and CLIN information as needed, including totals.