F-35 Deal Targets Lower Price, More Shared Risk

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The Pentagon and Lockheed Martin have finally agreed on a 4% decrease in the target cost for the next production lot of stealthy F-35s after more than a year of antagonistic negotiations.

Target per-unit airframe costs are as follows for the three variants of the Joint Strike Fighter (JSF): $105 million for the conventional-takeoff-and-landing F-35A; $113 million for the short-takeoff-and-vertical-landing F-35B and $125 million for the carrier suitable F-35C, according to Joe Dellavedova, a spokesman for the JSF program executive officer. Low-rate, initial production (LRIP) lot 5 includes 32 aircraft — 22 F-35As, three F-35Bs and seven F-35Cs, all for the U.S.

The contract’s total value is $3.8 billion and covers the airframe only; negotiations between the Pentagon and Pratt & Whitney on purchasing the F135 engines for the single-engine fighter are still ongoing, Dellavedova says.

The contract increases Lockheed Martin’s exposure to risk for cost overruns if they occur in building the aircraft. The company must pay 55% of any overruns up to a ceiling of 112% of the target cost, with the government picking up the remainder, Dellavedova says. The LRIP 4 contract evenly split the cost of overruns.

The Pentagon has paid $136 million in concurrency costs for LRIP deals 1-3, or about $4.86 million per aircraft.

The unlikely benefits of cost underruns are equally shared between the Pentagon and Lockheed.

Perhaps more significant is a shift on potential “concurrency costs” associated with the aircraft. This refers to the price of retrofits to already produced aircraft that would be needed as a result of discoveries made during the ongoing F-35 testing program.

In LRIP 4, the Pentagon took any concurrency cost of more than $52 million out of the company’s award fee. The LRIP 5 deal includes a 50/50 split on costs associated with concurrency, Dellavedova says.

The Pentagon embraced the concept of concurrently developing and producing the F-35 when it signed the contract with Lockheed in 2001, but has since worked to shift the financial risk for the strategy to the contractor as a result of ongoing cost overruns, earlier testing delays and missed delivery deadlines.

The contract also includes a payment schedule based on each aircraft’s journey through the production process until the jet is accepted by the Pentagon.

Prior to LRIP 4, the Pentagon bore the burden of overruns to producing the aircraft. Last year, the Pentagon said that totaled $771 million for those lots, averaging at $27.5 million per aircraft (including the concurrency costs).

Deliveries under LRIP 5 are slated to last from August 2013-May 2014, Dellavedova says. Lockheed has delivered 20 airframes in 2012; its goal is 30. A spokesman says the final 10 are off the production line and awaiting paperwork for the formal delivery.

Meanwhile, program officials say that they expect to declare the F-35A training wing at Eglin AFB, Fla., ready to produce instructor pilots by year’s end as earlier proposed.