

Presenters: Frank Kendall, Under Secretary of Defense for Acquisition, Technology and Logistics; Lieutenant General Christopher Bogdan, Program Executive Officer for the F-35 Lightning II Joint Strike Fighter Program; Dr. William LaPlante, Assistant Secretary of the Air Force for Acquisition; Navy Rear Admiral Randolph Mahr, Deputy Program Executive Officer for the F-35 Lightning II; Sean Stackley, Assistant Secretary of the Navy For Research, Development, and Acquisition

June 12, 2014

### Media Roundtable Teleconference with Under Secretary Frank Kendall

STAFF: Hi. Good afternoon. From Fort Walton Beach, thank you for joining us via phone. We're going to start this a few minutes early. We'll provide a transcript afterwards for anyone who missed the opening remarks.

So, Under Secretary of Defense for Acquisition, Technology, and Logistics, Mr. Frank Kendall just wrapped up two days of discussions at the annual F-35 CEO conference. Mr. Kendall will make an opening statement and take questions. Also available are Mr. Sean Stackley, assistant secretary of the Navy for research, development, and acquisition, Dr. Bill LaPlante, assistant secretary of the Air Force for acquisition, Lieutenant General Chris Bogdan, program executive officer for the JSF program. And Mr. Keith Webster, director of international cooperation.

With so many of you on the phone and our time constraints of about 30 minutes, I'll go down the list of names, so please limit yourself to one question so we can get to everyone, and then if we have time for follow-ups, we'll address those at the end.

Thank you. Mr. Kendall.

UNDER SECRETARY FRANK KENDALL: Hello everybody.

I'll just say a few words, and then try to give you as much time for questions as possible. This is my third of these annual conferences, and it's the first one that we're having at near Eglin Air Force Base, near an operational base. It's given the partners a chance to visit with some of the crew, the maintainers, trainers, see some of the facilities, and to get closer to what they're actually going to have very shortly in terms of operational aircraft and operational capabilities.

The bottom line in the program at this stage is that we're continuing to make steady progress there are still some areas of risk that remain, and as always, we're concerned very much about controlling costs and things we can do to reduce cost.

We are holding to the U.S. initial operating capability dates, and as I look back to a year ago, the program is essentially making progress at the pace we expected.

There are a few risks though that we're -- we're watching closely. Software is the one that people talk about the most. We are concerned that we may have a few months of slip in software.

Delivery of some of some of our final builds. But in general, we're making progress there. We're trying to drive our reliability to higher levels. That's another area of concern, an area where we can save a lot -- a lot of money. And we're trying to improve the sustainment in general including the software system called ALIS, which supports sustainment.

The -- the things that we're doing along those lines, we've put some incentives in place for the prime, for Lockheed to tie some of its future payments and future buys to progress on specific events associated with those three things.

We're also putting in place what we call a blueprint for affordability, which is the idea of establishing incentives for investment by Lockheed and other members of the industry team so that we get a high rate of return for the government in future cost savings. So we're working out the details of that but that's another step that we're taking.

We're seeing maturing performance. I got a chance to sit in a simulator yesterday and I had a recent flight in an F-18 so I got to make a pretty much face-to-face comparison of the current state of what we have with our current software builds that we're testing and what's available for our pilots today. And I'm already seeing substantial improvements in what's available. So we're -- we're definitely moving in the right direction even though we still have some room -- some room still to go.

We also -- I want to mention that I'm encouraged that the Congress is supporting us and giving us some initial funds to start follow-on development work. The threat doesn't stand still in this area.

And we've been working towards an objective that was created a few years ago and we need to be thinking already about the next round of improvements to the F-35 once we get to the -- the 3F, which is kind of our target build right now.

We also, at the conference, discussed Block 4, build 4, which will include a number of our partners' features. So we've got that build well-defined now and all the partners are -- are comfortable with our decisions there and how we're moving forward to support them.

Overall, there was a lot of discussion about the need for stability in the program. That means basically that whatever planned production we have, we stick with it so that we can count on that. Every time someone slips their buys, it increases the cost for the other partners. And we're all aware of that and we're all committed to trying to hold the line on our production plans.

Now for the U.S. in particular, that's a problem because of the threat of sequestration. We can't make a firm commitment to our partners that we're going to be able to do what we have asked for in our budgets because of that. And it's an unfortunate situation and one of the many negative impacts of sequestration hanging over our heads.

There is an increasing emphasis on sustainment and planning for sustainment. As we get closer to our own initial operational capability and some of our partners get closer to taking delivery on airplanes and ordering their airplanes, we're turning a lot more attention to the details of

planning for sustainment and how we're going to do that. That's -- as we -- as we get closer to fielded capabilities, it's one of the things we're confronting and actually I'm encouraged by that but it's an area we're going to have to focus on as we go forward.

So that's pretty much it as a summary. I think we're all encouraged by the progress, we all know there's risk ahead and we're all starting to look forward to having operational capability come out of this program.

So I'll take your questions.

STAFF: Great.

And so I know a few of you joined us after Mr. Kendall started speaking and again, I will provide that opening statement part of the transcript to those who didn't join us. But I'm just going to go down the list of the people I know and when I get to the end, if you've joined the line later and I didn't call you, please let me know.

So I'll turn this over to Doug Cameron.

Q: Hi. (inaudible) take myself off mute.

Hi, Secretary Kendall.

UNDER SEC. KENDALL: Hi Doug.

Q: Hi.

On the -- you can hear me OK?

There's obviously been a lot of focus more recently with Pratt in terms of meeting cost targets before that -- before that Lockheed.

With all the aerospace and defense contractors enacting their own internal, you know, cost and efficiency measures, how are you looking to kind of protect the sub-tier suppliers to, you know, ensure that the -- the primes don't kind of try and pass everything down and perhaps, you know, endanger or perhaps even weaken some of the sub-tier suppliers?

UNDER SEC. KENDALL: We have to keep an eye on that, of course. The best thing we can do for the sub-tier supplies is get the production rate up so that they get the kind of volume that they need to be viable.

At the same time, we want everybody involved with F-35 to be doing whatever they can to reduce cost. And one of the reasons we have primes is to help manage that with the sub-tiers.

There's -- there's a level of, I think -- if you want to call it coercion, I guess you could or pressure that can be put on the tiers that can be debilitating at some point. But in general, I don't think we're there yet. I think we still have plenty of opportunity for cost reduction.

Let me ask General Bogdan to make a comment about that. He's probably closer to some of the sub-tiers than I am.

GENERAL CHRISTOPHER BOGDAN: Yeah, as you all know, more than 80 percent of the price and work on an F-35 comes from work done by the suppliers below the primes. So ensuring that their long-term viability in terms of the future work is important for them, especially the smaller suppliers, so that we can start taking advantage of economies of scale in the future.

So as Mr. Kendall said, we watch very closely how the relationship between the primes and the subs evolve to ensure that they are -- they remain viable since, without them, 80 percent of this airplane is not going to happen.

Q: Great. Thank you both.

UNDER SEC. KENDALL: Maybe a little footnote to that, I think that the primes realize there's only so much they can pass down to the subs. They're aware they have to remain viable as well.

STAFF: Andrea.

Q: Thank you very much.

So I wanted to ask about just a quick contractual thing. You know, we understand that you're moving closer to an agreement both with Lockheed on LRIP 8 and then also with Pratt & Whitney on seven and eight.

Can you give us an update on that and how that is going?

At their recent media day, the Lockheed executive said that they didn't think that they'd be able to provide the department with as much of a discount as they had in previous agreements because the, you know, opportunities for cost savings were growing more limited.

And then I just wanted to ask you on the sustainment piece, you talked about focusing on that more.

What -- do you have some kind of target in mind for reducing (inaudible) cost, the projected cost of sustainment?

UNDER SEC. KENDALL: On the first one, I can't say very much about the state of negotiations except that they're still going on and I think I'll just leave it at that.

On sustainment, I'm going to put General Bogdan on the spot. He talked today at the conference about 10 and 20 percent further reductions in sustainment cost overall. I don't think that's an unrealistic target. I don't know if we can get there but I think doing everything we can to get as close to that as possible is absolutely the right course for us.

Chris, do you want to add anything.

GEN. BOGDAN: Yeah, we -- we've seen modest reductions in the lifecycle cost estimates up until this point. As exemplified, in the CAPE's estimate in SAR 13, which over the life of the program showed about a 9 percent decrease.

We believe there's an opportunity out there to take that 9 percent and turn it into about 30 percent reduction overall. But we have to have specific plans, which we're putting in place to go do that.

So we've stood up a war cost room, we have a commitment from -- from our industry partners that they too will -- will in the future invest in driving that O&S cost down. And I think what you need to do is just watch us and compare the results we have with our words to see if we're getting there.

UNDER SEC. KENDALL: One of the things, Frank again, one of the things we did here at the conference was hear from some of our enlisted maintainers, who are working on the aircraft now. And they're full of suggestions for ways to reduce costs on the sustainment side.

So that's -- that's one source of information that's actually turning out to be very valuable to us. We've got to fold a lot of that practical thinking into how we're doing maintenance.

STAFF: Tony?

Q: Sir, hey, Tony Cappacio with Bloomberg News.

Reliability -- last June before the SAC-D you said, "We are not where we need to be on reliability; I think we can do better than that; we are lagging on our own goals by a significant margin right now in terms of the reliability that we're actually seeing on the airplane; we need to improve that."

Fast forward a year later, where are you?

UNDER SEC. KENDALL: I would probably make pretty much the same comment today. There is some marginal evidence of improvement, but it's not enough. What I was slightly encouraged by today was that people are moving towards much more specific plans for how to get from where they are to where they need to be.

Now, we're going to be looking at I think some better indicators, leading indicators of metrics, if you will, of progress on improving reliability. It takes a little while to see those results

when you look at the whole fleet of aircraft. But on the more recent aircraft with the fixes in, we should be seeing results pretty quickly. So we're going to be looking at that.

For both Lockheed and Pratt & Whitney, there are Pareto curves basically which show the frequency of failures, and then you've got the failures that help you prioritize the thing that you go after. And we are focusing I think pretty clearly on the things we need to do there. We just need to get them done, get them cut into production.

Then I think we're going to start to see some improvements. We definitely have to get that done.

Q: Where -- what are one or two metrics, layman's metrics for the reliability issues you're having now in the mean time between failure, breaking down of parts -- just a couple of metrics that a layman would understand.

UNDER SEC. KENDALL: Yeah, cost per flying hour, mean time between failures, amount of time it takes to conduct a repair once you have a fault. You know, there are a number of things there. And reliability -- that's more of availability there -- reliability specifically, it's generally the amount of time between the failure of a particular part.

Q: Okay, thank you.

STAFF: Ok, thanks. Colin Clark.

Q: Hi, Mr. Kendall. You mentioned looking anew at the breadth of what needs to be done. Are you referring to the J-20 and other fifth-generation aircraft, to IADS? What are the new threats?

UNDER SEC. KENDALL: Yeah, I'm looking at a range of threats. The J-20 is part of that -- the PAC FA -- as it's called in Russia; the J-31 also from China. But it's not just aircraft. It's also air-to-air weapons, sensors, electronic warfare capabilities. It's the entire suite of things that gives you the capability to dominate the air.

And there are people out there making very thoughtful investments designed to counter some of the things that we're doing right now.

Q: Are there any in particular that you're focusing on for the next -- next generation right now?

UNDER SEC. KENDALL: I'm not sure I follow your question. Next generation relative to --

Q: Well, you were saying that you're looking at the threats, starting to plan for this next iteration, I assume after four.

UNDER SEC. KENDALL: Are you talking about the U.S. next generation?

Q: Yes.

UNDER SEC. KENDALL: Yeah, well there's some work I commissioned at DARPA over a year ago called the Air Dominance Initiative, which is looking at what is the next set of things we need to do, whether it's an aircraft or its more likely a system-of-systems approach with an aircraft plus all the other things that I mentioned and how they're networked together.

Part of that package is certainly going to be building on the F-35s' capabilities that are currently planned. The F-35 is designed so that we can upgrade it in a number of ways – sensors, electronic warfare capabilities, processing capabilities and so on. So that will be a piece of the equation as well.

We're starting to do things, and with some support from the Congress this year, which I'm very grateful for, I think I mentioned earlier, to do some follow-on development. We need to start thinking now about the requirements for the next blocks of software after 3F is fielded and after the things that are currently in block four.

So this is a game that never ends. You have to stay ahead and there are competitors out there that you have to worry about.

Q: Thank you.

STAFF: Amy Butler.

Q: Hi, thank you very much.

I'd like to ask as a follow up to the point about the war cost room. The thinking was that you're asking industry to invest in some of these capabilities to improve reliability. How much are you asking industry to invest?

And I'd like to also get your input on if you think the overhead issue that was cited earlier this year with Pratt & Whitney is being addressed as you go through your -- your, you know, pricing and what not on your next contract.

UNDER SEC. KENDALL: I don't have data on their overhead that I can give you right now. Chris or one of the other people here may. On the investment, we're talking at least tens of millions of dollars and we're looking at the return on the investment as much -- as well as anything.

We want to make sure that this is a win-win, so that industry, you know, recovers their investment and a reasonable profit, but we get good cost reductions out of it as well.

Sean Stackley's been leading that effort. If you'd like, I could ask Sean to say a word or two about it.

Q: That would be great.

ASSISTANT SECRETARY SEAN STACKLEY: What we're trying to work with industry is to go beyond what normal learning would provide, go beyond what increased production rates would provide in terms of driving down the cost and going at everything from facility investments to process improvements to design changes where prudent to improve cost performance, and setting some pretty aggressive targets.

We're going to -- going to walk before we run, and industry is out front in terms of the investment, which shows the level of commitment on their part and also the level of confidence in the initiatives that they're putting on the table to driving costs down.

Q: Okay. And then could anybody address whether or not the concerns cited by I think it was your -- I think it was General Bogdan earlier this year about overhead with Pratt, if those have been addressed.

UNDER SEC. KENDALL: Chris, you want to take that?

GEN. BOGDAN: Yeah. When you use the word "addressed," Amy, I interpret that as we understand what the construct of Pratt's overhead rates look like. And we are addressing those as we move forward and negotiate with them for future lots of airplanes.

So for us, it's a better -- it's an understanding of what drives costs into the engine and what Pratt can do to drive costs out of it. We have a pretty good understanding of that and with a good understanding we can sit down with Pratt and come up with strategies that they need to implement to drive costs down.

So, I'm comfortable with our understanding of it and we just have to work with Pratt to get them to move in the right direction.

Q: Okay, so I want to make sure to be clear. You're comfortable with the understanding of it, but it sounds to me like there still needs to be measures taken so that the F-35 isn't bankrolling overhead on other programs, essentially.

GEN. BOGDAN: Pratt made us a cost commitment a long time ago, and the department and the enterprise is going to hold Pratt accountable for that commitment.

UNDER SEC. KENDALL: Overhead is one element of that cost. And, you know, but from the program point of view, however the cost is reduced, the end result is what matters to us.

STAFF: Mike McCarthy

Q: Thank you.

Q: This is Mike. Quick question on the software. Can you bring us up to speed? You know, this was identified as the biggest risk. Can you bring us up to speed right now on where it

stands, what testing has been done, what's ahead, how many lines have been written, how many lines to go?

UNDER SEC. KENDALL: We're still in test now for 2B. We're bringing 3I on board. We have used up some of the slack that we think we had in those builds and we're looking at a possibility of about six months. And estimates vary a little bit, but the center of that estimate is about six months for 3F, which is the warfighting software that we're all trying to get to.

Chris, did you want to say a word or two more about that?

GEN. BOGDAN: Yeah. With the software that the U.S. Marine Corps intends on declaring IOC with, we believe that the software is not a driving factor in achieving IOC on 1 July 2015. There's a lot of other things that have to happen for the Marine Corps to declare IOC, but we don't think software is on that critical path.

We believe the same is true for the 3I software, which is the software that the U.S. Air Force on 1 August 2016 will declare IOC with. We don't see the software development and the testing of that software to be on the critical path to declaring that.

Different story with 3F. And as Mr. Kendall said, the center of our belief is that we're about six months behind in software development there. That is if we don't do anything different and we don't get any better over the next two to three years in developing that software. So I have to do everything I can to work with Lockheed to ensure that we take that six months and move it back so that we don't impact anything in the future.

Q: And just for clarification, is the 3F software what the Navy is going to IOC with?

GEN. BOGDAN: Yes, that will be the software that the Navy in 2018 will declare IOC with.

UNDER SEC. KENDALL: It's also the software we're going to take into OT&E.

Q: Great. Thank you.

STAFF: Grace Jean

UNDER SEC. KENDALL: And then going forward, before we leave the software issue. The other services will go to 3F as soon as its available, even though they're IOC-ing with it earlier, with earlier versions.

Q: Hi, it's Grace Jean.

I wanted to ask you a question about sustainment. General Bogdan, you talked about going from 9 percent to 30 percent reduction overall and that you're learning lessons from maintainers and getting some good suggestions. I was wondering about the timeframe of when you think that

might occur? Is it -- are we talking a couple of years or longer term? And maybe a couple of those suggestions that you're getting from those maintainers.

GEN. BOGDAN: I will tell you that there's no end date to the continued improvement of reducing O&S costs. The 30 percent number that I quoted is something that we look towards when we get past full-rate production and we start producing airplanes in large, large numbers.

We want to be there by that time because it -- because if you -- if you're not there by then, then you're not going to get the savings you need.

In terms of the maintainer types of things, simple things such as we used to have to check the oil on every flight. We have now been able through engineering analysis and working with the engine manufacturers to take that requirement to only every 10 hours does the maintainer need to now check the oil.

Another thing is the airplane is very, very smart. It tells you when it thinks something is broken or when something is going to break. Problem is, many of those smart things on the airplane are not mature yet, so the maintainers have come to us and said, "hey look, if we know that the airplane is fine, even though the system is telling us there's something wrong, please give us the ability to go into ALIS and to go into the maintenance records and change what ALIS says, and because we know it's right. We are taking those on board to try and relieve their burden.

So, one of the metrics we have today is how long did it take from when an airplane lands to when it can take off again? And the U.S. Air Force, last year, was at four and a half hours. This year, they're at three hours. And by next year, we're hoping to bring that down even more. So, the maintainers are a critical source of really good, practical ways of doing business, and we've got to - we've got to integrate that into the program.

ASSISTANT SECRETARY WILLIAM LAPLANTE: This is Bill LaPlante. I just want to pile on what General Bogdan just said. I think we're just beginning to see, and it's just beginning, analytics to understand workflow, understand what are the actual steps that the operators and maintainers have to do? And then once you get an understanding of that and get -- there's basically a science to it, then you look at how technology and changes to that can change that workflow, and how you can get efficient. And we're just beginning to have those kind of experts, really starting to look at how the planes are being maintained.

So, I think you -- that's some of the foundational work that should pay off a lot in a few years.

Q: I'm sorry, could I ask one quick follow up question on the software?

STAFF: We have to get through a few more, and then if we have time at the end, absolutely.

Q: OK.

STAFF: Lee Hudson.

Q: Yes, General Amos said his greatest obstacle in declaring IOC in July 2015 is the retrofit modifications. I was hoping you all could talk a little bit about what is being done to mitigate that risk.

GEN. BOGDAN: Yeah, so, it's General Bogdan.

There are 10 airplanes that the U.S. Marine Corps has designated as the airplanes from which they will use to declare IOC. Those 10 airplanes are in different states of configuration, and in order to declare IOC, they all have to be one in the same configuration, and two, the most up to date configuration, so that Marine Corps, if called on, could use these airplanes in combat.

A few of the things that we've looked at to mitigate the -- the fact that this is on the critical path is one, getting the kits and the parts to the maintainers and to the folks, the artisans at the depots that do that work. And then at the same time, be able to get those airplanes through the depot as quickly as possible so on the back end, we can get them into the hands of the Marine corps, so they can fly them and train their pilots for IOC.

So, we have done -- we have done a lot of work over the past six months to bring all of that work back in underneath the timeline such that today, I'm fairly confident that by 1, July 2015, we'll have those 10 airplanes in enough time for the Marine Corps to fly them and train them.

STAFF: John Tirpak

Q: Thank you. I was wondering in your discussions with the partners, have you discussed any mitigation or workarounds or penalties if a particular country or service defers or decides not to buy as many F-35s as they said they were going to, since that does affect everybody else?

UNDER SEC. KENDALL: Frank.

No, we haven't done that. You know, everybody in the partnership is susceptible to its own political processes, its own budget concerns, and so on. So, at this point we haven't done anything that would, you know, penalize people for making their own decisions. What the partners are signed up to is their contributions to the SDD program fundamentally.

And you know, as they go through their own procurement decisions, they have to do that within their own national budgets. We recognize that. Looking forward, we would consider an idea that would provide some positive and negative incentives for people to sign up to specific numbers of buys, once their political process supports that, so that that would incentivize everybody to stay in. There'd be a -- there'd be a positive incentive for meeting your commitments and a negative incentive if you didn't. We haven't gotten to that yet, but it's something we're -- we're just barely beginning to talk about as a possibility.

As we get further downstream and production gets to higher rates and the program stabilizes a little bit more, we would entertain within the U.S. the idea of a multi-year, certainly. I think there will come a time, and we'll want to talk about that sort of a thing with our partners as well.

Q: Can you talk a little more about what the incentives or disincentives might be?

UNDER SEC. KENDALL: I think they'd be essentially financial.

Q: OK, so not like, extra -- extra gear on the plane or an extra update or something?

UNDER SEC. KENDALL: There would be impacts on price.

Q: All right. Thank you.

STAFF: Kris Osborn

Q: Yes, thank you very much. Can you talk a little bit about the value of the F-35C and the upcoming test plans for its first carrier landing?

UNDER SEC. KENDALL: I'm sorry, the value?

Q: Yes. What it will bring to the fleet.

UNDER SEC. KENDALL: Oh, in terms of capability.

Q: Thank you.

UNDER SEC. KENDALL: I've got Admiral Mahr with me from the Navy, he'd probably be willing to address that for you.

The value to the fleet, to the Navy of the F-35C?

REAR ADMIRAL RANDOLPH MAHR: Yes sir.

So, the U.S. Navy and the F-35Cs bring the capability of the front-line fighter, newest front-line fighter to the Navy, and the ability this Fall to go take that out to the carrier and demonstrate our ability to operate on the carrier, to land and take off using the existing equipment inter-operate with the approach radars and the radios and the rest of the airwing is the first step in delivering that in 2018 for the operator's use.

UNDER SEC. KENDALL: For any user, the F-35 is a quantum improvement in multi-role air capability. And it doesn't matter whether it's one of our partners or the Marine Corps or the Navy or the Air Force. It brings a significant improvement over what anybody currently has today.

STAFF: Jason Sherman.

Q: Hi, thanks. I'd like to ask about this report that Stephen Welby, deputy assistant secretary of defense for systems engineering, sent Congress this spring, which -- which found that the F-35 could miss one of eight key performance parameters, and that the aircraft, by the end of development in 2018, might possibly be unable to demonstrate almost 40 percent of the originally envisioned operational capabilities.

I'm wondering if you could say what steps the program is taking by way of remedial action to address the shortcomings that are identified in that report, and if you might also say a bit of background about, apparently there was a review last year, according to the report that was undertaken to assess whether the Joint Strike Fighter contract specifications addressed the fully operational requirements the JROC validated in 2000.

Can you, maybe General Bogdan or Secretary Kendall, can you say why this review was undertaken and whether or not Lockheed was arguing that some requirements the government expected were not made explicit in the -- in the original ORD? Thank you.

UNDER SEC. KENDALL: Yeah, this is Frank. I think I can take that one on. I think the report you're referring to that Dr. Welby sent over was this annual system engineering report to the Congress, which goes through the risks in each of our major programs. There's nothing in that report we're not very well aware of.

And you know, Steve has pointed out some risks that we're working, that General Bogdan's well aware of, and that we're making progress on. We don't see anything in the program that suggests we're not going to make our KPPs, ultimately however. The -- I'm not sure what the other report was you referred to.

I'd do an annual assessment of the program, fairly in depth, a deep dive if you will, it occurs in about the September time frame, where we look extensively at the program and how it's doing and make sure we have a very clear picture of that. So, that may be what you're referring to.

Q: Maybe General Bogdan might address it? The -- Dr. Welby's report said that a program review was undertaken last year to assess whether the JSF contract specifications addressed all the operational requirements the JROC had validated, and that's how it was in the course of that review that his office or the program identified the shortcoming of 24, 52 capability goals that will not be met by the end of systems development.

GEN. BOGDAN: Yeah, so let me correct you on a few facts.

UNDER SEC. KENDALL: That's General Bogdan speaking.

GEN. BOGDAN: This is General Bogdan.

The warfighter provides the acquisition community a document called an ORD, an operational requirements document. We have that. And it has many, many, many different things that the warfighter needs in this airplane. The acquisition community takes that and turns it into a systems specification.

Sometimes, when you translate the warfighter's needs into contractual language, there's always significant room for interpretation. So, what we embarked on last year, and it was a JPO initiative to do this, was to ensure that the contract systems specification was in line with what the warfighter truly needed based on the ORD.

What we found was there were some different interpretations between what the warfighter thought he was going to get, and what the prime contractors were actually going to deliver. We have done a scrub of that and we have addressed every single one of those disconnects such that we understand today what the warfighter needs, and we have made the appropriate adjustments in the program to ensure that those system specs on contract are parallel and comparable to the needs in the ORD.

The number that you -- you quote in that report, where those disconnects for which, at the time, we did not have a way of closing that gap. We have a way of closing that gap now, and we have done that. So, I would tell you to look next year at that systems engineering report, because what you're going to see is that we've closed that gap, and there is no distance between what the warfighter thought he was going to get and what we intend on delivering.

Q: I previously asked your office for an accounting of what those shortfalls were. Would you be willing to provide us specifics on -- on what those shortfalls were and -- and how -- how they're being addressed?

GEN. BOGDAN: I will take that request under consideration.

You have to understand that some of those capabilities are not publicly releasable necessarily. So my commitment to you is I'll take a look and I'll try and meet your needs but I can't guarantee I can get it all to you.

Q: OK. Thank you.

STAFF: We're running out of time, we have Pat Host and then anybody that I've missed, please let me know. So Pat, go ahead.

Q: Hey guys.

Earlier this week, Lorraine Martin said that Lockheed Martin was behind on SDD points on the F-35A and I was just wondering, are you guys OK with that?

UNDER SEC. KENDALL: We're behind in some areas of test. We looked today at -- this is Frank -- we looked today at all the different areas undergoing test right now and the risk we're seeing in schedule is because in some of those cases, we are not where we had planned to be. So we're well aware of -- of all those.

And they were -- all of that impact was included in what I said earlier about the software build's delivery and the schedule risk that we see there, particularly with 3F.

Q: OK. So it's the software that's basically holding it up?

UNDER SEC. KENDALL: Software and the testing of the software.

We're -- we're doing reasonably well at getting test points in but we are behind. And the question is can we -- can we narrow that gap somewhat between and when we finish 3F?

Q: OK. Thank you.

STAFF: Did I miss anybody on the line?

OK, I know Grace, you had one follow up on software and then we'll end with that.

(CROSSTALK)

Q: Yeah, my question was on the 3F software. Could you tell us a little bit more about why that's being -- why you're so behind on that and what portion of it because it is tied to the -- the C model but I don't know how much of that is because it is a C model or if it's other things that are more endemic to the entire program?

UNDER SEC. KENDALL: That's a good question.

The 3F software is for all the models. It's not just for the C.

The Navy has chosen not to have initial operating capability in the fleet until they get that software. But all the services want that software.

The -- what's in it that's difficult is what we call "fusion." It's merging of information from different sensor systems on the aircraft and off the aircraft, information that comes from other airplanes that's transmitted to the F-35 and then merged with its own information.

That's a difficult processing problem, it's a difficult computational problem and that's why the 3F software is -- and of course, it all has to be tested. And just going through all the tests and getting the different aircraft that might need to be in a test together so that you can pull all the test off is -- is challenging. And that's where the scheduling backup comes in.

Q: Can I just do a quick follow-on to that specific question? Mike McCarthy of Defense Daily.

If -- if the 3F is not ready by the Navy's IOC date, will the Navy go to IOC with an earlier version or will the Navy delay IOC to accommodate the 3F?

UNDER SEC. KENDALL: I can't answer that. I don't think anybody here can answer that.

I think that that's a decision the Navy would make if that occurs, you know. They will be at a point where they will have some operational capability and whether they want to declare IOC at that point or wait until they get, you know, the remaining functionality, I don't know.

And I don't think they're going to confront that decision until they have to. They've asked for a certain level of capability and we're doing everything we can to give it to them.

GEN. BOGDAN: I want to make one -- I want to make one clarifying point about that. You shouldn't automatically assume that if the 3F software is x number of months late in its development that that automatically translates into a delay for the Navy or any other partner or service delaying their IOC.

There are many, many things that go into declaring an IOC and software is just one of those. And what I can tell you right now is even though the 3F software is showing a six-month delay, that does not translate directly into any kind of delay for IOC yet because we've built some margin into the schedule, we've eaten some of that margin away and we're going to do everything we can to pull that back in.

STAFF: OK, I know...

Q: Can I follow up one more quick question?

Frank, when you talked about the possibility of moving to a multiyear, are you talking about -- would that be from when the plane -- after the plane reaches full-rate production and what year is that going to be?

UNDER SEC. KENDALL: Normally -- normally for the U.S., we'd wait until OT&E, make sure we had a very stable design and could -- could intelligently do a multi year.

In this program, we're going to be building quite a lot of airplanes before that point, particularly when you take into account the partners so we -- we -- we're -- we're just barely beginning to think about possibilities there. So there's no plan at this point in time.

But we're looking for ways to reduce cost and there might be something in there that would work for us. So we're going to take a look at it.

STAFF: OK, I know we have one last follow up, I said that before but we have to get out of here so we can get back and get these gentlemen in the briefing room tomorrow for many of you.

So Tony is our last follow-up and then we're shutting down.

Q: Yeah, Mr. Kendall, this is a quick one.

You had mentioned earlier, fees were being -- the incentives to Lockheed to meet some of the metrics. I know you don't have the specific figures but can you just broadly say these were fees tied to deliveries of a 3 -- of a 2B, 3I and 3F?

UNDER SEC. KENDALL: Yeah, we're looking at accepting deliveries and fees associated with that. We're looking at rates for future procurement.

There's a couple progress payments. There are several things we -- we can tie to progress on the program.

Q: Can you ask General Bogdan to detail some of those -- and not today but maybe in the next week or so because that would be useful for the public to know you're actually holding their feet to the fire financially?

UNDER SEC. KENDALL: Yeah, we can give you a little bit more specifics than I just did.

Q: Thank you.

STAFF: Alright. Alright, thanks everyone. Hope to see many of you tomorrow at 11:30 in the briefing room.

If you want some read-ahead, embargoed material, please email myself and Jenn Elzea. Any follow-ups to this, email me and Joe.

Thanks everyone.

(CROSSTALK)

**-END-**