

OSD RDT&E BUDGET ITEM JUSTIFICATION (R2 Exhibit)

Date: February 2007

APPROPRIATION/ BUDGET ACTIVITY RDT&E/ Defense Wide BA# 4		PE NUMBER AND TITLE 0605017D8Z - Reduction Of Total Ownership Cost						
Cost (\$ in Millions)	FY 2006 Actual	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Total Program Element (PE) Cost	23.733	25.144	25.225	24.805	25.327	25.885	26.554	27.239
P017 Reduction in Total Ownership Cost Projects	23.733	25.144	25.225	24.805	25.327	25.885	26.554	27.239

A. Mission Description and Budget Item Justification: The Under Secretary of Defense (Acquisition, Technology & Logistics)(USD(AT&L))-defined mission for the Reduction in Total Ownership Cost (R-TOC) program is the reduction of ownership costs for defense systems. The R-TOC program provides funding for activities and initiatives that will:

1. Increase the reliability, maintainability, supportability and thus increase readiness of new or existing defense systems
2. Reduce logistics footprint
3. Generate future cost reductions in total ownership cost

These individual initiatives are complete efforts within themselves that yield complete redesigns that the Services are committed to put into production and operation. The initiatives optimize cost avoidance, ultimately reducing the operating and support costs for systems.

The USD(AT&L) has set an FY 2010 R-TOC goal of reducing the total defense systems inflation increase in Operations and Support (O&S) cost by 30 percent between FY 2004 and FY 2010. This Program Element (PE) provides a major portion of the program funding to achieve this goal. The successful demonstration of the R-TOC program initiatives should stimulate additional initiatives by the Services to achieve even greater cost avoidances.

The R-TOC program lead is within DUSD(A&T) and is supported by the Institute for Defense Analyses (IDA). Individual R-TOC Project Management rests with the Services and their Project Managers. Each Service has an active R-TOC Point of Contact (POC) for the initial interface between Office of Secretary of Defense (OSD) and the R-TOC Project Managers.

The average Return on Investment (ROI) for FY 2007 projects (based on discounted cash flow calculations) is approximately 6.1:1 with \$582 million in cost avoidance across the Future Years Defense Program (FYDP). The ROI is approximately 31.5:1 with \$3.1 billion in cost avoidances across the life cycle of the affected systems. These cost avoidances will be lost without the requested funding in FY 2008, which is needed to complete the projects begun with FY 2007 funding. The average Return on Investment (ROI) for these FY 2008 new start projects (based on discounted cash flow calculations) is approximately 7.0:1 with \$266 million in cost avoidance across the FYDP. The ROI is approximately 46.8:1 with \$1.424 billion in cost avoidances across the life cycle of the affected systems. The remaining FY 2009 funding and out year funding has been grouped into three project areas: Reliability Improvements, Maintainability Improvements, and Supportability Improvements. These three areas have proven to be the highest payoff areas for cost reductions and corresponding increases in system readiness.

<u>B. Program Change Summary</u>	FY 2006	FY 2007	FY 2008	FY 2009
Previous President's Budget (FY 2007)	24.429	25.289	26.030	25.563

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Current BES/President's Budget (FY 2008/2009)	23.733	25.144	25.225	24.805
Total Adjustments	-0.696	-0.145	-0.805	-0.758
Congressional Program Reductions		-0.149		
Congressional Rescissions				
Congressional Increases				
Reprogrammings				
SBIR/STTR Transfer	-0.696			
Other		0.004	-0.805	-0.758

C. Other Program Funding Summary: Not Applicable.

D. Acquisition Strategy There is an annual USD(AT&L) call for proposed project plans in October. Projects are submitted by the Services annually in January. The project plan format is provided with the call for submission of Service projects. Each project plan contains:

1. Problem statement
2. Impact statement
3. Technical description
4. Risk analysis
5. Proposed phases
6. Expected deliverables and results or outcomes
7. Program management
8. Cost/benefit analysis
9. Schedule
10. Implementation plan

The project evaluation criteria are also provided as part of the call for use by the Services in arriving at their prioritized project list. There are eleven categories for evaluation:

Objective measures:

1. ROI (Future Years Defense Program), Score 10, 5, or 3 points, respectively for high (>10:1), medium (between 10:1 and 5:1), low (<5:1)
2. ROI (System's or Program's Life Cycle), Score 10, 5, or 3 points, respectively for high (>20:1), medium (between 20:1 and 10:1), low (<10:1)
3. Service ranking, Score 10, 5, 1 points, respectively for top 1/3, middle 1/3, and bottom 1/3
4. Crossover year (return greater than investment), Score 5, 3, 1 points, respectively for <5 years, 3 years, >3 years
5. Payback year (total return greater than total investment), Score 5, 3, 1 points, respectively for <4 years, 4 years, >4 years

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Subjective measures:

1. Operational readiness improvement, 10, 5, 1 points, respectively strong, medium, weak discussion of operational readiness improvements
 2. Benefits credibility, 5, 3, 1 points, respectively strong, medium, weak discussion of projected benefits
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 4. Schedule confidence, 3, 2, 1 points, respectively strong, medium, weak discussion of schedule confidence
 5. Budget confidence, 3, 2, 1 points, respectively strong, medium, weak discussion of budget confidence
 6. Management support, 3, 2, 1 points, respectively strong, medium, weak discussion of management support
- The Services receive project plans and make a Service priority ranking based on detailed analysis of each proposed initiative against the eleven evaluation criteria. This priority ranking is sent to the OSD lead. Upon acceptance and approval of the projects by OSD, the projects are briefed to the R-TOC Forum and Congressional staff, as required. Funding is distributed equally between the Services based on priority and the evaluation process results.

Upon final funding approval, OSD transfers individual project funding to the appropriate funding sites that are provided by the Services. After receiving the project funding, the Services are responsible for the funding and management of the projects. OSD retains oversight and direction of the R-TOC Initiative through the OSD lead office.

A Quarterly Project Report (QPR) format has been defined, approved by the Services, and is required for each funded project. These reports require:

1. Statement of progress
2. Outstanding issues
3. Upcoming events
4. Schedule status
5. Current investment status
6. Current estimate of savings or cost avoidance

These QPRs are submitted to the OSD R-TOC Initiative lead office. OSD analyzes project status, progress and project statistics and informs the Service POCs of any project problems. Projects are also required to report verbally at the quarterly R-TOC Forums, as appropriate.

E. Performance Metrics:

FY	Strategic Goals Supported	Existing Baseline	Planned Performance Improvement / Requirement Goal	Actual Performance Improvement	Planned Performance Metric / Methods of Measurement	Actual Performance Metric / Methods of Measurement
06	See below					
07	See below					
08	See below					

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Comment: The vision is that "all defense systems will perform with increasing readiness and capability while avoiding increased operations and support costs and improve logistics footprint by institutionalizing the continuous implementation of innovative process and hardware improvement." Existing Baseline: FYDP O&S Costs for FY 2004; Planned Performance Improvement/Requirement Goal: The goal is to "maximize cost avoidance on total defense systems FY 2010 O&S costs by offsetting 30 percent of the inflation predicted from an FY 2004 baseline." Actual Performance Improvement: Unknown at this time. Planned Performance Metric/Methods of Measurement: Return on Investment (ROI) measured over both the period of the FYDP and over the Life Cycle (LC) of each system. Actual Performance Metric/Methods of Measurement: Return of Investment (ROI) measured over both the period of the FYDP and over the Life Cycle (LC) of each system.

Comment: The objective of each of the projects is the reduction of operations and support (O&S) costs for the affected systems. ROI is the primary performance metric for the projects and for the R-TOC initiative. Each project plan includes a cost/benefit analysis, which is based on discounted cash flow calculations of project investment costs and projected cost avoidances. OMB discount rates are used to provide real comparisons of future value against current uses of resources. Projected cost avoidances are based on engineering estimates of the benefits provided by project implementations. Sources of cost avoidances are defined as part of the project submittal and come from any O&S cost source (fewer spares, lower maintenance hours, faster turnaround times, reduced scheduled maintenance, etc.). Updated ROI calculations are part of the required quarterly project reports to provide tracking of this metric.

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B. Accomplishments/Planned Program:

Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009

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APPROPRIATION/ BUDGET ACTIVITY RDT&E/ Defense Wide BA# 4	PE NUMBER AND TITLE 0605017D8Z - Reduction Of Total Ownership Cost	PROJECT P017		
Army	0.465	0.000	0.000	0.000
60mm Celluloid MICs				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	2.197	0.000	0.000	0.000
CGA Development				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	1.232	0.000	0.000	0.000
HIMARS UFCS				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.425	0.000	0.000	0.000
Elim. Wirebound Box				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.867	0.000	0.000	0.000
UV for RDX				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.000	0.000	0.000
Torsion Leaf Spring Improvement				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.000	0.000	0.000
Replace AL layer				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	1.825	0.000	0.000	0.000
Bradley Transmission				

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Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.508	0.000	0.000	0.000
Paladin Rammer Assembly				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	2.100	0.000	0.000
H-60 Tailcone				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	2.244	0.000	0.000
Guardrail Low Band Antenna				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.681	0.000	0.000
Lightweight Composite Container				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	1.992	0.000	0.000
REMBASS II Stand Alone Sensor				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.450	0.000	0.000
Replace PDU				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.325	0.000	0.000
ANS-157 Interface Software Loader				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009

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Army	0.000	0.000	2.231	0.769
CECOM SKO Optimization				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.000	0.120	0.000
MG Barrel Cooling Device				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.000	1.500	0.000
New Barrel Coating				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.000	0.440	0.000
Photostripping				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.000	1.242	0.000
HH-60M ECS				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Army	0.000	0.000	3.000	0.000
AH-64 Servos				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.400	0.000	0.000	0.000
Fuel Management Control Panel				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.890	0.000	0.000	0.000
Midrange FLIR				

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Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.780	0.000	0.000	0.000
CASS				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.280	0.000	0.000	0.000
Armament System Controller TPS Dev				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.425	0.075	0.000	0.000
Ship's Material Condition Model				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.605	0.450	0.000	0.000
T-1 Fuel System Upgrade				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.500	0.150	0.000	0.000
EFV Aft Hydraulic Manifold				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	1.668	1.949	0.000	0.000
F/A-18 BIT Maturation				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.480	0.480	0.000	0.000
Self Cleaning Oil Filter				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009

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Navy	0.569	0.055	0.000	0.000
Digital Electronic Control Unit (DECU)				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.315	0.315	0.000	0.000
PSS II Mechanical Seal				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.660	0.000	0.000	0.000
DDG 51 Gas Seal				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.000	0.900	1.100
H-60 Damper Assembly				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.000	0.315	0.315
PSS II Mechanical Seals				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.100	0.000	0.150
H-1 UGHW Cost Reduction				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.150	0.000	0.427
TPI Digitization				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.427	0.000	0.450
PALs and Power Supply				

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Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.450	0.000	0.170
CRA LTS				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.170	0.000	0.180
H-1 Main Rotor Cuff Closures				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.360	0.000	0.000
DRT Model				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	1.066	1.685	0.000
HV Module Repairability				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.000	1.813	0.187
Fiber Optic Network				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.000	0.393	0.393
Power Configuration Management				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Navy	0.000	0.000	0.452	0.452
1000 Gal VSD				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009

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Navy	0.000	0.000	1.744	1.356	
IR Camera					
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009	
Navy	0.000	2.210	1.230	0.000	
CVN Magnetic Coupling					
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009	
Air Force	1.270	1.130	0.000	0.000	
Engine Component Repair					
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009	
Air Force	4.040	3.388	0.000	0.000	
Engine Reliability Centered Maintenance (RCM)					
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009	
Air Force	0.000	0.453	0.000	0.000	
MILSTAR Radome Replacement					
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009	
Air Force	1.450	2.100	0.000	0.000	
Fuel System Icing					
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009	
Air Force	1.500	0.807	0.000	0.000	
Aircrew Bladder Relief					
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009	
Air Force	0.000	1.067	1.056	0.000	
F101-GE-102					

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Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.382	0.000	0.000	0.000
Intermittent Fault Detection System				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	1.074	0.000
F100 LC Closure Cost Trans (LCCCT)				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	0.967	1.571
F110-GE-129/129B RCM Calculator				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	0.500	0.000
Adv Composite Tower (ACT)				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	0.500	0.490
Field Backshop Test Data System				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	0.978	1.222
F119 Engine NI 100 IBR Repair				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	0.985	1.285
FPS-117 Radome Fleet Replacement				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009

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Air Force	0.000	0.000	0.600	0.000
Restoration of Dimensional Tolerances				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	1.500	2.500
Dia/Prog Life Mgt System for the 100				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	0.000	4.581
Reliability Improvements				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	0.000	4.108
Maintainability Improvements				
Accomplishment/Planned Program Title	FY 2006	FY 2007	FY 2008	FY 2009
Air Force	0.000	0.000	0.000	3.099
Supportability Improvements				

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7. Program management
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APPROPRIATION/ BUDGET ACTIVITY
RDT&E/ Defense Wide BA# 4

PE NUMBER AND TITLE
0605017D8Z - Reduction Of Total Ownership Cost

PROJECT
P017

E. Major Performers Not Applicable.

OSD RDT&E COST ANALYSIS (R3)

Date: February 2007

APPROPRIATION/ BUDGET ACTIVITY RDT&E/ Defense Wide BA# 4			PE NUMBER AND TITLE 0605017D8Z - Reduction Of Total Ownership Cost							PROJECT P017		
I. Product Development	Contract Method & Type	Performing Activity & Location	Total PYs Cost	FY 2007 Cost	FY 2007 Award Date	FY 2008 Cost	FY 2008 Award Date	FY 2009 Cost	FY 2009 Award Date	Cost To Complete	Total Cost	Target Value of Contract
Amry			7825	7708	1Q	8259	1Q	8118	1Q	0	31910	0
Navy			7522	7715	1-3Q	8258	1Q	8258	1Q	0	31753	0
Air Force			7572	8468	1Q	8258	1Q	8118	1Q	0	32416	0
Subtotal:			22919	23891		24775		24494		0	96079	0
II. Support Costs	Contract Method & Type	Performing Activity & Location	Total PYs Cost	FY 2007 Cost	FY 2007 Award Date	FY 2008 Cost	FY 2008 Award Date	FY 2009 Cost	FY 2009 Award Date	Cost To Complete	Total Cost	Target Value of Contract
Program Support			64	803	1-4Q	0		0		0	867	0
Subtotal:			64	803		0		0		0	867	0
III. Test And Evaluation	Contract Method & Type	Performing Activity & Location	Total PYs Cost	FY 2007 Cost	FY 2007 Award Date	FY 2008 Cost	FY 2008 Award Date	FY 2009 Cost	FY 2009 Award Date	Cost To Complete	Total Cost	Target Value of Contract
Subtotal:			0									
IV. Management Services	Contract Method & Type	Performing Activity & Location	Total PYs Cost	FY 2007 Cost	FY 2007 Award Date	FY 2008 Cost	FY 2008 Award Date	FY 2009 Cost	FY 2009 Award Date	Cost To Complete	Total Cost	Target Value of Contract
RTOC Program Support and Analysis (IDA)			750	450	1Q	450	1Q	311	1Q	Continue	1961	0
Subtotal:			750	450		450		311		Continue	1961	0

OSD RDT&E COST ANALYSIS (R3)

Date: February 2007

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Project Total Cost:	23733	25144		25225		24805	Continue	98907	0

Schedule Detail (R4a Exhibit)

Date: February 2007

APPROPRIATION/ BUDGET ACTIVITY
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<u>Schedule Detail</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Contract Preparation	2Q							
System Development	3Q	1-4Q						
Quality Design and Build	4Q	1-4Q						
Developmental Technical Testing		3-4Q	1-4Q	1-4Q	1-4Q	1-4Q	1-4Q	1-4Q
Developmental Evaluation		4Q	1-4Q	1-4Q	1-4Q	1-4Q	1-4Q	1-4Q

Comment: In January each year Services submit selected projects for budget year plus one. As funds become available in 2Q of the execution year, funds are distributed to the Services for obligation/contract award. The individual contracts (starting in 3-4Q) are for the system development, quality and Design testing and test evaluation. These contract generally have a period of performance of 1-2 years.