

**INCENTIVE PRICE
REVISION--SUCCESSIVE TARGETS**

(a) General. The supplies or services identified in the subcontract as item numbers _____ are subject to price revision in accordance with this clause; provided, that in no event shall the total final price of these items exceed the ceiling price of _____ dollar (\$_____). The prices of these items shown in the subcontract are the initial target prices, which include an initial target profit of _____ percent of the initial target cost. Any supplies or services that are to be (1) ordered separately under, or otherwise added to, this subcontract and (2) subject to price revision in accordance with this clause shall be identified as such in a modification to this subcontract.

(b) Definition. "Costs," as used in this clause, means allowable costs in accordance with Part 31 of the Federal Acquisition Regulation (FAR) in effect on the date of this subcontract.

(c) Submitting Data for Establishing the Firm Fixed Price or a Final Profit Adjustment Formula. (1) Within _____ days after the end of the month in which the Seller has completed _____ [see Note (1)], the Seller shall submit the following data:

(i) A proposed firm fixed price or total firm target price for supplies delivered and to be delivered and services performed and to be performed.

(ii) A detailed statement of all costs incurred in the performance of this subcontract through the end of the month specified above, on the Company's Contract Pricing Proposal form (or in any other form on which the parties may agree), with sufficient supporting data to disclose unit costs and cost trends for:

(A) Supplies delivered and services performed; and

(B) Inventories of work in process and undelivered subcontract supplies on hand (estimated to the extent necessary).

(iii) An estimate of costs of all supplies delivered and to be delivered and all services performed and to be performed under this subcontract, using the statement of costs incurred plus an estimate of costs to complete performance, on the Company's Contract Pricing Proposal form (or in any other form on which the parties may agree), together with:

(A) Sufficient data to support the accuracy and reliability of the estimate; and

(B) An explanation of the differences between this estimate and the original estimate used to establish the initial target prices.

(2) The Seller shall also submit, to the extent that it becomes available

before negotiations establishing the total firm price are concluded:

(i) Supplemental statements of costs incurred after the end of the month specified in subparagraph (1) above for:

(A) Supplies delivered and services performed; and

(B) Inventories of work in process and undelivered subcontract supplies on hand (estimated to the extent necessary); and

(ii) Any other relevant data that the Company may reasonably require.

(3) If the Seller fails to submit the data required by subparagraphs (1) and (2) above within the time specified and it is later determined that the Company has overpaid the Seller, the Seller shall repay the excess to the Company immediately. Unless repaid within 30 days after the end of the data submittal period, the amount of the excess shall bear interest, computed from the date the data were due to the date of repayment, at the rate established in accordance with the Interest clause.

(d) Establishing Firm Fixed Price or Final Profit Adjustment Formula. Upon the Company's receipt of the data required by paragraph (c) above, the Company and the Seller shall promptly establish either a firm fixed price or a profit adjustment formula for determining final profit, as follows:

(1) The parties shall negotiate a total firm target cost, based upon the data submitted under paragraph (c) above.

(2) If the total firm target cost is more than the total initial target cost, the total initial target profit shall be decreased. If the total firm target cost is less than the total initial target cost, the total initial target profit shall be increased. The initial target profit shall be increased or decreased by _____ percent [see Note (2)] of the difference between the total initial target cost and the total firm target cost. The resulting amount shall be the total firm target profit; provided, that in no event shall the total firm target profit be less than _____ percent or more than _____ percent of the total initial target cost.

(3) If the total firm target cost plus the total firm target profit represent a reasonable price for performing that part of the subcontract subject to price revision under this clause, the parties may agree on a firm fixed price, which shall be evidenced by a subcontract modification signed by the Seller and the Company.

(4) Failure of the parties to agree to a firm fixed price shall not constitute a dispute under the Disputes clause. If agreement is not reached, or if establishment of a firm fixed price is inappropriate, the Seller and the Company shall establish a profit adjustment formula under which the total final price shall be established by applying to

the total final negotiated cost an adjustment for profit or loss, determined as follows:

(i) If the total final negotiated cost is equal to the total firm target cost, the adjustment is the total firm target profit.

(ii) If the total final negotiated cost is greater than the total firm target cost, the adjustment is the total firm target profit, less _____ percent of the amount by which the total final negotiated cost exceeds the total firm target cost.

(iii) If the total final negotiated cost is less than the total firm target cost, the adjustment is the total firm target profit, plus _____ percent of the amount by which the total final negotiated cost is less than the total firm target cost.

(iv) The total firm target cost, total firm target profit, and the profit adjustment formula for determining final profit shall be evidenced by a modification to this subcontract signed by the Seller and the Company.

(e) Submitting Data for Final Price Revision. Unless a firm fixed price has been established in accordance with paragraph (d) above within _____ days after the end of the month in which the Seller has delivered the last unit of supplies and completed the services specified by item number in paragraph (a) above, the Seller shall submit on the Company's Contract Pricing Proposal form (or in any other form on which the parties agree):

(1) A detailed statement of all costs incurred up to the end of that month in performing all work under the items;

(2) An estimate of costs of further performance, if any, that may be necessary to complete performance of all work under the items;

(3) A list of all residual inventory and an estimate of its value; and

(4) Any other relevant data that the Company may reasonably require.

(f) Final Price Revision. Unless a firm fixed price has been agreed to in accordance with paragraph (d) above, the Seller and the Company shall, promptly after submission of the data required by paragraph (e) above, establish the total final price, as follows:

(1) On the basis of the information required by paragraph (e) above, together with any other pertinent information, the parties shall negotiate the total final cost incurred or to be incurred for the supplies delivered (or services performed) and accepted by the Company and which are subject to price revision under this clause.

(2) The total final price shall be established by applying to the total final negotiated cost an adjustment for final profit or loss determined as agreed upon under

subparagraph (d)(4) above.

(g) Subcontract Modification. The total final price of the items specified in paragraph (a) above shall be evidenced by a modification to this subcontract, signed by the Seller and the Company. This price shall not be subject to revision, notwithstanding any changes in the cost of performing the subcontract, except to the extent that:

(1) The parties may agree in writing, before the determination of total final price, to exclude specific elements of cost from this price and to a procedure for subsequent disposition of these elements; and

(2) Adjustments or credits are explicitly permitted or required by this or any other clause in this subcontract.

(h) Adjustment of Billing Prices. (1) Pending execution of the subcontract modification (see paragraph (e) above), the Seller shall submit invoices or vouchers in accordance with billing prices as provided in this paragraph. The billing prices shall be the initial target prices shown in this subcontract until firm target prices are established under paragraph (d) above. When established, the firm target prices shall be used as the billing prices.

(2) If at any time it appears from information provided by the Seller under subparagraph (i)(1) below that the then-current billing prices will be substantially greater than the estimated final prices, the parties shall negotiate a reduction in the billing prices. Similarly, the parties may negotiate an increase in billing prices by any or all of the difference between the target prices and the ceiling price, upon the Seller's submission of factual data showing that the final cost under this subcontract will be substantially greater than the target cost.

(3) Any adjustment of billing prices shall be reflected in a subcontract modification and shall not affect the determination of any price under paragraph (d) or (f) above. After the subcontract modification establishing the total final price is executed, the total amount paid or to be paid on all invoices or vouchers shall be adjusted to reflect the total final price, and any resulting additional payments, refunds, or credits shall be made promptly.

(i) Quarterly Limitation on Payments Statement. This paragraph (i) shall apply until a firm fixed price or a total final price is established under subparagraph (d)(3) or (f)(2).

(1) Within 45 days after the end of each quarter of the Seller's fiscal year in which a delivery is first made (or services are first performed) and accepted by the Company under this subcontract, and for each quarter thereafter, the Seller shall submit to the Company a statement, cumulative from the beginning of the subcontract, showing:

(i) The total subcontract price of all supplies delivered (or services performed) and accepted by the Company and for which final prices have been established;

(ii) The total cost (estimated to the extent necessary) reasonably incurred for, and properly allocable solely to, the supplies delivered (or services performed) and accepted by the Company and for which final prices have not been established;

(iii) The portion of the total interim profit (used in establishing the initial subcontract price or agreed to for the purpose of this paragraph (i)) that is in direct proportion to the supplies delivered (or services performed) and accepted by the Company and for which final prices have not been established--increased or decreased in accordance with subparagraph (d)(4) above when the amount stated under subdivision (ii), immediately above, differs from the aggregate firm target costs of the supplies or services; and

(iv) The total amount of all invoices or vouchers for supplies delivered (or services performed) and accepted by the Company (including amounts applied or to be applied to liquidate progress payments).

(2) Notwithstanding any provision of this subcontract authorizing greater payments, if on any quarterly statement the amount under subdivision (1)(iv) above exceeds the sum due the Seller, as computed in accordance with subdivisions (1)(i), (ii), and (iii) above, the Seller shall immediately refund or credit to the Company the amount of this excess. The Seller may, when appropriate, reduce this refund or credit by the amount of any applicable tax credits due the Seller under 26 U.S.C. 1481 and by the amount of previous refunds or credits effected under this clause. If any portion of the excess has been applied to the liquidation of progress payments, then that portion may, instead of being refunded, be added to the unliquidated progress payment account consistent with the Progress Payments clause. The Seller shall provide complete details to support any claimed reductions in refunds.

(3) If the Seller fails to submit the quarterly statement within 45 days after the end of each quarter and it is later determined that the Company has overpaid the Seller, the Seller shall repay the excess to the Company immediately. Unless repaid within 30 days after the end of the statement submittal period, the amount of the excess shall bear interest, computed from the date the quarterly statement was due to the date of repayment, at the rate established in accordance with the Interest clause.

(j) Subcontracts. No subcontract placed under this subcontract may provide for payment on a cost-plus-a-percentage-of-cost basis. The Seller shall:

(1) Insert in each price redetermination or incentive price revision subcontract the substance of paragraph (i) above, and of this paragraph (j), modified to omit mention of the Company and to reflect the position of the Seller as purchaser and

of the subcontractor as vendor, and to omit that part of subparagraph (i)(2) above relating to tax credits; and

(2) Include in each cost-reimbursement subcontract a requirement that each lower-tier price redetermination or incentive price revision subcontract contain the substance of paragraph (i) above, and of this paragraph (j), modified as required by subparagraph (j)(1), immediately above.

(k) Termination. If this subcontract is terminated before the total final price is established, prices of supplies or services subject to price revision shall be established in accordance with this clause for (1) completed supplies and services accepted by the Company and (2) those supplies or services not terminated under a partial termination. All other elements of the termination shall be resolved in accordance with other applicable clauses of this subcontract.

(l) Equitable Adjustments Under Other Clauses. If an equitable adjustment in the subcontract price is made under any other clause of this subcontract before the total final price is established, the adjustment shall be made in the total target cost and may be made in the maximum dollar limit on the total final price, the total target profit, or both. If the adjustment is made after the total final price is established, only the total final price shall be adjusted.

(m) Exclusion From Target Price and Total Final Price. If any clause of this subcontract provides that the subcontract price does not or will not include an amount for a specific purpose, then neither any target price nor the total final price includes or will include any amount for that purpose.

(n) Separate Reimbursement. If any clause of this subcontract expressly provides that the cost of performance of an obligation shall be at Company expense, that expense shall not be included in any target price or in the total final price, but shall be reimbursed separately.

(o) Taxes. As used in the Federal, State, and Local Taxes clause or in any other clause that provides for certain taxes or duties to be included in, or excluded from, the subcontract price, the term "subcontract price" includes the total target price or, if it has been established, the total final price. When any of these clauses requires that the subcontract price be increased or decreased as a result of changes in the obligation of the Seller to pay or bear the burden of certain taxes or duties, the increase or decrease shall be made in the total target price or, if it has been established, in the total final price, so that it will not affect the Seller's profit or loss on this subcontract.

NOTES: (1) *The degree of completion may be based on a percentage of subcontract performance or any other reasonable basis.*

(2) *The language may be changed to describe a negotiated adjustment pattern under which the extent of adjustment is not the same for all levels of cost variation.*