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News Release

First Aviation Featured in 'Aviation Week' Commentary "Sole-source Contracts Need to be Restricted"

Westport, CT, October 21, 2015 – The October 12, 2015 issue of 'Aviation Week & Space Technology' includes a commentary by former Editor-In-Chief Anthony L. Velocci, Jr. concerning the huge negative consequences of pervasive sole sourcing in defense contracting and noting First Aviation Services Inc.'s efforts to reverse this trend.

Velocci conservatively states that approximately half of the Defense Department's $3 trillion of maintenance contracts over the next decade will be sole sourced. In fact, DOD's own 3rd Quarter Publication of DOD Competition Reporting showed that NAVAIR and the Air Force's Materiel Command – the two largest spenders of aircraft maintenance dollars – sole-sourced 80.8% and 72.7% of their contracts (respectively). That's approximately $36 billion spent without competition in just three months.

Velocci states that DOD justifies this sole sourcing by claiming "that only original equipment manufacturers (OEM) hold the technical data to perform maintenance." But, as Velocci then points out, "when potential competitors are shut out, the work almost always goes to the OEM, effectively giving it a lifetime monopoly" even though the maintenance could be performed by any number of independent maintenance, repair and overhaul (MRO) firms such as First Aviation.

Over the past three years, First Aviation has opposed DOD's sole sourcing through multiple protests that sought full-and-open competition for contracts that were inappropriately bundled and sole sourced based on DOD's belief that it has no technical data rights. In particular, First Aviation has urged the government to enforce its laws and acquisition regulations which "mandate that the government has unlimited rights to repair and maintenance data, including the right to provide it to third party contractors." First Aviation's initiatives have also revealed that some sole source contracts exist where the contractor (the OEM) "outsources essentially all the work to subcontractors" essentially disproving DOD's sole source justification that only one capable source exists. Furthermore, as Velocci avows, First Aviation discovered that "DOD has taken delivery of hundreds of C-130Js without obtaining FAA airworthiness certificates, despite Pentagon budget requests to Congress describing the aircraft as 'FAA-certified'."

Velocci notes that "the implications of First Aviation's protests are gargantuan when applied to hundreds of billions of dollars in defense spending over the next ten years and the potential savings

that…would flow from opening up MRO contracts to full and open competition" and that this "might actually be the key to accommodating much needed weapons systems modernization."

While government leaders "bemoan the upfront price of weapons systems, the reality is that the life-cycle cost of military hardware is 2 – 3 times as much", and furthermore "setting aside the issue of fairness or even the legalities of government contracting, the issue begs the question of whether DOD leadership is serious about challenging the status quo and traditional ways of doing business."

First Aviation appreciates Mr. Velocci's attention to these important issues.

About First Aviation Services Inc. (www.firstaviation.com)

First Aviation Services Inc. (FAvS), located in Westport, Connecticut, is a leading provider of repair and overhaul, rotables management and related engineering services to the aviation industry worldwide. FAvS's principal operating subsidiaries are Aerospace Turbine Rotables, Inc. (AeTR) in Wichita, Kansas, Piedmont Propulsion Systems, LLC (PPS) in Winston-Salem, North Carolina and Evolution Aerospace, Inc. (EAI) in Wichita, KS.. FAvS also owns a minority interest in Aerospace Products International, Inc., based in Memphis, Tennessee. More information about FAvS and its subsidiaries may be found on the company's website.

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Anthony L. Velocci, Jr.

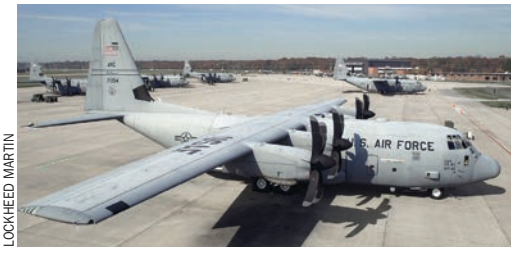
Anthony L. Velocci, Jr., was editor-in-chief of Aviation Week & Space Technology *from 2003-12.*

COMMENTARY

Invisible Barriers

Sole-source contracts need to be restricted

Congress, the Pentagon and the Government Accountability Office (GAO) have been clamoring for years that increased competition is the most effective way to reduce wasteful defense spending. Yet the practice of awarding contracts on a sole-source basis is pervasive throughout the Defense Department. In fact, about half of the $3 trillion the department expects to spend during the next decade on just maintenance and operations will involve sole-source contracts, according to the Pentagon's own Competition Reports.



LOCKHEED MARTIN

The Defense Department's justification is that only original equipment manufacturers (OEM) hold the technical data to perform the maintenance. But here's the rub: When potential competitors are shut out, the work almost always goes to the OEM, effectively giving it a lifetime monopoly.

A good example is replacement parts for the propeller for legacy Lockheed C-130 transports. They have been sole-sourced for 60 years to Hamilton Sundstrand, a part of United Technologies Corp.'s Aerospace Systems (UTAS), at a cost of hundreds of millions of dollars. Now the same OEM is replacing the propeller with one that likely will extend the monopoly another 20 years.

Worse, UTAS won't release the maintenance manuals for the replacement prop, even though the propeller could be maintained by any one of numerous maintenance, repair and overhaul (MRO) providers, quite possibly at less cost. The net result is that UTAS effectively will be assured of a protected revenue stream over the propeller's entire life cycle. The irony is that while Defense Secretary Ashton Carter and weapons acquisition chief Frank Kendall bemoan the upfront price of weapons systems, the reality is that the life-cycle cost of military hardware is 2-3 times as much.

Even when some independent companies have expressed a willingness to foot the bill to develop maintenance manuals and replacement parts—potentially saving the Pentagon huge sums of money—the government has still been inclined to turn a blind eye. In some cases, it has claimed there are insufficient resources to approve newly developed manuals and replacement parts; in other cases, it has indicated no desire to follow up.

First Aviation Services Inc. knows the drill all too well. For the last three years, the small supplier has been trying to unbundle the multibillion-dollar, sole-source contract that the Defense Department has been awarding to Rolls-Royce annually since 2000.

If technical data is the issue, the solution is obvious: Enforce existing laws that mandate the government has unlimited rights to repair and maintenance data, including the right to provide it to third parties for all routine maintenance. But if it is a case of institutional bias in favor of OEMs, that may present a more intractable problem—not just for First Aviation but for all lower-tier suppliers that would like to compete for MRO contracts being awarded on a sole-source basis. In either case, current practices make a mockery of the Pentagon's mantra of "do more with less."

In an unexpected twist, multiple protests by First Aviation not only revealed that Rolls outsources essentially all the work to subcontractors, but the Defense Department has taken delivery of hundreds of C-130Js without obtaining FAA airworthiness certificates, despite Pentagon budget requests to Congress describing the aircraft as "FAA-certified." According to an FAA legal opinion, if the Pentagon had not failed to obtain these certificates, it would have immediately clarified any legal question about the Pentagon's rights to technical data and opened up to competitors all maintenance contracts for the "J" model.

There are signs that First Aviation is making some headway. For example, Congresswoman Virginia Foxx (R-N.C.), a defense hawk, is urging the House Armed Services Committee and her colleagues to pressure the Defense Department to enforce laws restricting sole-source contracts. Smart, since the implications of First Aviation's protests are gargantuan when applied to hundreds of billions of dollars in defense spending over the next 10 years and the potential savings that almost certainly would flow from opening up MRO contracts to full and open competition.

First Aviation is just a microcosm. No doubt, countless other suppliers run into the same invisible barrier year after year. Setting aside the issue of fairness or even the legalities in government contracting, the issue begs the question of whether Defense Department leadership is serious about challenging the status quo and traditional ways of doing business to improve the affordability of weapons systems.

If they are—though there's good reason to be skeptical—OEMs in the short term will lose lucrative sustainment annuities. On the plus side, the savings and benefits generated by full and open competition might actually be the key to accommodating much needed weapons systems modernization.