



Introduction

These instructions are furnished as a guide to help you prepare and submit claims resulting from the partial or complete termination of a LOCKHEED MARTIN contract ("LOCKHEED MARTIN" means LOCKHEED MARTIN CORPORATION acting through its duly authorized Procurement Representative). The basic objectives are to clarify the rules and procedures governing termination proceedings and to specify termination data requirements in order that termination settlement proposals can be processed and settled in a timely manner.

The fundamental regulation covering termination is set forth in Section 49 of the Federal Acquisition Regulation (FAR) and the settlement of termination claims shall be made in conformity with this regulation and with the provisions of LOCKHEED MARTIN's contract.

In order to help us make prompt settlements, you must furnish adequate information on the forms and in the manner acceptable to LOCKHEED MARTIN and the Government. It is stressed that in addition to conforming to the provisions contained in the FAR, the basis and form of submission of the termination settlement proposal must be acceptable to LOCKHEED MARTIN.

You are entitled to compensation of work accomplished prior to the date of termination and for reasonable expenses incurred as a result of termination, as further provided in the "Termination for Convenience" clause, of the General Provisions of the contract, and as provided by applicable provisions of the FAR.

The following are examples of the type of data and information which should be submitted to us with your settlement proposal:

A statement as to the estimated percentage of completion of the work required by the contract prior to termination.
The types of expenses included in the "other cost" and/or "settlement expense" categories.
When you take the following steps action will be taken to expedite settling your claim.

- exercise care and discretion in preparing your settlement proposals, inventory schedules, and schedule of accounting information
- ensure that your lower-tier subcontractors' termination settlement proposal data have been properly prepared,
- submit this information timely to LOCKHEED MARTIN

II. Identifying Forms to be Used When Making a Claim

Settlement Proposals

Short Form Settlement Proposal (Standard Form 1438) may be used for Claims under Ten Thousand Dollars (\$10,000).
Settlement Proposal—Inventory Basis (Standard Form 1435) is the preferred form for fixed price contracts.
Settlement Proposal—Total Cost Basis (Standard Form 1436) requires approval of LOCKHEED MARTIN and the Contracting Officer before usage.
Settlement Proposal (Standard Form 1437) is to be used for terminated cost type contracts.

Inventory Schedules

Standard Forms 1426 and 1427—Metals in Mill Product Form
Standard Forms 1428 and 1429—Raw Materials (Other than Metals), Purchased Parts, Finished Products and Miscellaneous
Standard Forms 1430 and 1431—Work in Process
Standard Forms 1432 and 1433—Dies, Jigs, Fixtures, Special Tools and Special Test Equipment
Standard Form 1434—Termination Inventory (To be used with Standard Form 1438)
Schedule of Accounting Information—Standard Form 1439, except when Standard Form 1438 is used.
Application for Partial Payment—Standard Form 1440

In the event you are unable to obtain forms, they will be furnished by LOCKHEED MARTIN.

III. Preparing a Settlement Proposal to Submit to LOCKHEED MARTIN

Preparing Settlement Proposals—In the event several contracts have been terminated by LOCKHEED MARTIN and these terminated contracts were issued pursuant to the same Government prime contract, you may submit only one settlement proposal to include all the claims arising against the several terminated contracts. However, that portion of the claim allocable to each terminated contract must be identified on the settlement proposal. When you have more than one terminated contract for identical items, it is mandatory that a consolidated settlement proposal be filed.

Note: The Procurement Representative may require additional copies of all original forms. Forms requiring signatures be signed in ink by an authorized official. If signed by other than an officer, owner, or partner, a copy of the authority to sign should be attached.

Preparing Inventory Schedules—The FAR requires that the termination inventory be screened for use on other contracts. You should not include, on the inventory schedules, any common items which are reasonably usable on other work without loss unless LOCKHEED MARTIN has specifically directed you to do so, or unless such items are Government-furnished property. It is requested that an attempt be made to return any termination inventory to the supplier from whom such inventory was received for full credit less the supplier's normal restocking charge or 25% of cost, whichever is less. When inventory is so returned it is not to be listed on the inventory schedules. The restocking charge and reasonable handling and transportation costs may be included in the settlement proposal as "other costs."

The termination inventory must be reported on the applicable inventory schedules enabling both LOCKHEED MARTIN and the Plant Clearance Officer to review these inventory schedules separately from the settlement proposal and send them to various Government branches and depots for inspection and screening for possible use. The subcontractor and lower-tier subcontractors are required to prepare inventory schedules. Inventorying and Preparing inventory schedules in the following manner facilitates inventory dispositioning:

- Segregate and secure all termination inventory from all other property.
- Conduct a physical inventory adequate for disposal purposes.
- Screen the property for possible reutilization on other contracts, unless otherwise directed not to do so by LOCKHEED MARTIN or if the property is Government Furnished Property (GFP).
- Itemize the termination inventory on the appropriate inventory schedule forms (SF14xx). Double space the item listing.

Use the proper inventory schedule as follows:

Standard Form 1426, Inventory Schedule A (Metal In Mill Product Form) Use this form to list metals in raw or primary form as furnished by the mill and on which there has been no subsequent fabricating operations. This form is for listing nonmetallic materials, such as plastics, rubber, or lumber, in mill product form. Do not list castings or forgings, which shall be reported on SF1428.

Standard Form 1428, Inventory Schedule B. Use this form to list raw material (other than metals), purchased parts, finished components, finished products, and plant equipment.

Standard Form 1430, Inventory Schedule C (Work in Process) Use this form for listing all work in process and include the percentage complete.

Standard Form 1432, Inventory Schedule D (Special Tooling and Special Test Equipment) Use this form to list contractor inventory of dies, jigs, gauges, fixtures, special tools, and special test equipment.

Standard Form 1434, Termination Inventory Schedule E, Use this form as a shortform accompanying SF 1438. This short form is limited to termination settlement proposals under \$10,000. Similar items should be grouped together. Multiple classifications may be listed on this form.

- Validate the adequacy and completeness of the inventory schedules submitted by you and your lower-tier subcontractors using the following guidelines:

–Group all line items of raw materials, purchased parts, finished components, or finished products whose total is in excess of \$500.00 on separate schedules (SF1428).

–Group all line items of raw materials, purchased parts, finished components, or finished products whose total is less than \$500.00 on separate schedules (SF1428)

–Extend all unit prices reflecting a line item cost for each item.

–Include a total line item count and total dollar value for each inventory schedule. Price all items at acquisition or

manufacturing cost.

- Use condition codes for each item. Condition codes are located in FAR Section 45.6 and Defense Federal Acquisition Regulations (DFAR) 245.606-5. Codes may also be obtained from a LOCKHEED MARTIN Procurement Representative.
- Include a full description of each item on the inventory schedule including manufacturer's name and manufacturing part number. If manufacturer's name or part number is not available, so state on the inventory schedules.
- Include Federal Supply Classification when applicable as part of the item description on the inventory schedules.
- List related product part number or the function the tool performs on the inventory schedules for special tooling and special test equipment.
- Include work in process parts and the percentage complete. Reflect on the inventory schedule only the cost of the work completed on the item.
- Prepare separate inventory schedules for items that have a condition code SS (scrap). Clearly note that it is scrap on the inventory schedules.
- Prepare separate inventory schedules for inventory that is GFP. Clearly note that it is GFP on the inventory schedules.
- Prepare separated inventory schedules for inventory that is LOCKHEED MARTIN furnished property. Clearly note that it is LOCKHEED MARTIN furnished property on the inventory schedules.
- Sign and date all inventory schedules.
- Include the name and title of the supervisory accounting official on the inventory schedules.

- Perform an allocability review and document the process and finding.

If any property is deemed unallocable to the terminated portion of the contract, ensure that the property has been removed from the inventory schedules and that the settlement proposal has been adjusted accordingly.

Provide your and your lower-tier subcontractors' certificate of allocability stating:

- An allocability review was performed on a specified date.
- The termination inventory costs are properly allocable to the terminated portion of the contract.
- The inventory quantities do not exceed the reasonable requirements of the terminated portion of the contract (including normal production allowances).
- The inventory schedules do not include any property that could be diverted to other work for you or your lower-tier subcontractors.

Retain any documentation supporting the allocability review and the certificate of allocability for your records and auditing purposes.

- Submit the inventory schedules and the certificates of allocability with the settlement proposal to LOCKHEED MARTIN.

Preparing the Schedule of Accounting Information—This schedule (Standard Form 1439) is required for all termination settlement proposals of \$10,000 or more under a Government prime contract. It is important that the certificate, on the back of this schedule, be signed in ink by an authorized official. If signed by other than an official, owner, or partner, a copy of the authority to sign should be attached.

Preparing the Termination Allocability Worksheet— Complete this worksheet for all items on Standard Forms 1426, 1427, 1430, or 1431. Submit the worksheet with the inventory schedules.

IV. Submitting a Settlement Proposal to LOCKHEED MARTIN

For contracts pursuant to a government prime contract submit the necessary documentation appropriate for the dollar value of the settlement proposal as follows:

A. Settlement Proposal, less than Ten Thousand Dollars (\$10,000)

You must submit the executed original of each document and the number of copies identified by the Procurement Representative for the Settlement Proposal and Inventory Schedules.

B. Settlement Proposals Ten Thousand Dollars (\$10,000) and greater.

You must submit the executed original of each document and the number of copies identified by the Procurement

Representative for the Settlement Proposal, Schedule of Accounting Information, and Inventory Schedules.

C. For any dollar value you must submit claims submitted to you by your lower -tier subcontractors.

It is your responsibility to negotiate settlements as promptly as possible and submit the following to LOCKHEED MARTIN for review and consent to place the final termination modification:

- Copy of Settlement Proposal
- Copy of all Inventory Schedules
- Copy of Schedule of Accounting Information
- Copy of your contract with change orders and/or modifications
- Copy of your Certificate of Allocability
- Copy of your Notice of Termination to the subcontractor
- Copy of complete summary of your review of the settlement proposal, property dispositioning instructions and your recommended settlement.

V. Reviewing the Termination Settlement Proposal

Upon receipt of the settlement proposal, inventory schedules, and schedule of accounting information, LOCKHEED MARTIN will perform a preliminary review. This review shall cover form and general conformance, determine if the charges are allocable to the terminated portion of the contract and verify that all certificates have been properly executed. The inventory will be screened for possible utilization and we will consider your recommendations, if any, that certain items, or all, of the inventory be scrapped.

VI. Conducting Allocability Reviews

LOCKHEED MARTIN will coordinate with you the allocability review of the property you are claiming. You must be prepared to demonstrate allocability of termination inventory by producing documents(i.e. purchase orders, bills of material, engineering drawings, indented parts lists, etc.) or any other evidence which confirms that:

- termination inventory acquired satisfies an objective of the contract
- the contractor had authority to acquire or fabricate the property
- termination inventory did not result from acquisition of quantities greater than supported by bill of materials (plus a reasonable amount for normal production allowance or minimum quantity buys).
- termination inventory does not include quantities acquired after the date of termination
- termination inventory does not exceed what would have been required for the terminated portion of the contract (applicable to partial terminations only)
- termination inventory does not indicate an unreasonable anticipation of contractual requirements.

LOCKHEED MARTIN shall notify the contractor of any discrepancies or concerns as a result of the allocability review and coordinate with the contractor to resolve any discrepancies. When all the termination inventory is deemed to be physically, technically and quantitatively allocable to the terminated contract and the inventory schedules are accurate and complete LOCKHEED MARTIN will begin the disposition process.

In the event that any of the inventory can be utilized, LOCKHEED MARTIN will provide shipping instructions to you and the items on the Inventory Schedules will be reduced accordingly.

VII. Processing of Termination Settlement Proposals for Contracts Issued Pursuant to Government Prime Contracts

You must retain appropriate documentation to demonstrate that disposition direction was given, the disposition direction was followed and that proceeds received have been credited to the contract.

A desk audit and accounting review will be performed. If appropriate, a Government field audit will be requested.

The inventory schedules will be screened for reutilization and then forwarded to the Government for appropriate screening and disposal direction in accordance with FAR 45.6. The Plant Clearance Officer will dispose of the inventory and issue a Standard Form 1424 Closing Report.

Inventory disposition instructions issued.

LOCKHEED MARTIN will perform a final pricing review to determine reasonableness of the claim and negotiate a net settlement with you subject to the Termination Contracting Officer's approval.

Your lower-tier-subcontractors' claims will be processed in the same manner as your settlement proposal.

VIII. Processing the Termination Settlement Modification

After a final price for the termination settlement has been negotiated and approved by the Government, an modification to the contract will be issued. The modification will be forwarded to you and you will be requested to:

- Sign and return the modification
- Submit your invoice in triplicate for the net amount of the settlement
- If applicable, sign a scrap warranty

Upon receipt of your final invoice, payment will be promptly processed.

IX. Requesting Partial Payment

Preparation and Submission of the Application—You may submit application for partial payment, when necessary, at any time after submission of interim or final settlement proposals. Application for Partial Payment, SF Form 1440, is to be used. Prepare an original application, and an original invoice for submittal to LOCKHEED MARTIN.

Review and Approval of the Application—Upon receipt, LOCKHEED MARTIN shall perform a review for allocability and accuracy, then complete our portion of the application. The application will then be forwarded to the Government for review and approval in accordance with the applicable acquisition regulations.

Payment of Your Invoice—Upon receipt of approval by the Administrative Contracting Officer, your invoice will be forwarded to our Accounts Payable Department for payment.

Processing Your Lower-Tier-Subcontractor's Application—Your lower-tier-subcontractor's must submit an original application, together with one (1) extra copy for each higher tier subcontractor for LOCKHEED MARTIN. In addition, they must provide an original invoice.

The applications shall be filed through the “contractual chain,” i.e., through each higher tier subcontractor.

Upon receipt of your lower-tier-subcontractor's application, you must review it to determine if the amount of the partial payment requested constitutes a proper charge against the terminated contract and sign the appropriate block on the reverse side of the application. You will then detach one copy of the application and retain it together with the lower-tier-subcontractor's invoice. Prepare your invoice for the proper amount and submit it, together with the balance of the lower-tier-subcontractor's application to LOCKHEED MARTIN.

We will process your lower-tier-subcontractor's application in the same manner as your own. Upon receipt of the partial payment, you must promptly pay your lower-tier-subcontractor's invoice or credit to him the amount received for his benefit.