

LOCKHEED MARTIN CORPORATION

PRIME SUPPLEMENTAL FLOWDOWN DOCUMENT (PSFD)

**ADDITIONAL TERMS AND CONDITIONS FOR SUBCONTRACTS/PURCHASE ORDERS
UNDER**

JSF LRIP 7 - CONTRACT NUMBER N00019-12-C-0004

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Original - September 18, 2012

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The Terms and Conditions listed below are incorporated by reference and made a part of this Contract, Purchase Order or Schedule Agreement. Unless otherwise limited in this Contract, Purchase Order or Schedule Agreement each document applies in its entirety.

In the event of a conflict between the version or date of a clause set out in this documents and the version or date of a clause set out in the identified CorpDocs, the version or date of the clauses set out in this document shall take precedence.

To the extent that any clause included in this PSFD is inapplicable to the performance of this Contract, the parties shall consider such clauses to be self-deleting and shall not impose any obligations upon the SELLER.

PART I. MODIFICATIONS The dates of the following FAR and DFARS clauses are modified as follows:

FAR 52.245-1 Government Property (APR 2012) (Applies if Government property will be acquired or furnished during the performance of this Contact.) ("Contracting Officer" means "Lockheed Martin" except in the definition of Property Administrator and in paragraphs (h)(1)(iii) where it is unchanged, and in paragraphs (c) and (h)(4) where it includes Lockheed Martin. "Government" is unchanged in the phrases "Government property" and "Government furnished property" and where elsewhere used except in paragraph (d)(1) where it means "Lockheed Martin" and except in paragraphs (d)(2) and (g) where the term includes Lockheed Martin." The following is added as paragraph (n) "Seller shall provide to Lockheed Martin immediate notice if the Government or other customer (i) revokes its assumption of loss under any direct contracts with Seller, or (ii) makes a determination that Seller's property management practices are inadequate, and/or present an undue risk, or that Seller has failed to take corrective action when required.")

FAR 52.249-2 Termination for Convenience of the Government (Fixed-Price) (APR 2012) ("Government" and "Contracting Officer" mean "Lockheed Martin" except in paragraph (n) where "Government" means "Lockheed Martin and the Government" and "Contracting Officer" means "Lockheed Martin or the Contracting Officer." In paragraph (c) "120 days" is changed to "60 days." In paragraph (d) "15 days" is changed to "30 days," and "45 days" is changed to "60 days." In paragraph (e)

"1 year" is changed to "six months." In paragraph (l) "90 days" is changed to "45 days." Paragraph (j) is deleted. Settlements and payments under this clause may be subject to the approval of the Contracting Officer.)

DFAR 252.203-7003 Agency Office of the Inspector General (APR 2012) (Applies when FAR 52.203-13 applies to this Contract.)

DFAR 252.211-7007 Reporting of Government Furnished Property (AUG 2012) (Applies if SELLER will be in possession of Government property for the performance of this Contract and Lockheed Martin has not assumed responsibility for marking the property.)

DFAR 252.227-7013 Rights in Technical Data-Noncommercial Items (FEB 2012)

DFAR 252.227-7014 Rights in Noncommercial Computer Software and Noncommercial Computer Software Documentation (FEB 2012)

DFAR 252.227-7037 Validation of Restrictive Markings on Technical Data (APR 2012)

DFAR 252.227-7038 Patent Rights-Ownership by the Contractor (Large Business) (JUN 2012) (Applies if this Contract involves experimental, developmental, or research work.)

DFAR 252.247-7023 Transportation of Supplies by Sea (JUN 2013) (In paragraph (g) "Government" and "Contracting Officer" mean "Lockheed Martin" and the words "of the Prompt Payment clause" are deleted. If this contract is less than \$150,000 only paragraphs (a) through (e) and paragraph (h) of the clause applies.)

PART II. ADDITIONS The following FAR and DFARS clauses are added:

FAR 52.211-15 Defense Priority and Allocation Requirements (APR 2008) (Contracts that are issued under a rated prime contract must carry the rating of the prime contract.)

FAR 52.215-2 Audit and Records –Negotiation (OCT 2010) (Applies to all subcontracts that exceed the simplified acquisition threshold, and: (1) that are cost-reimbursement, incentive, time-and-materials, labor-hour, or price-re-determinable type; (2) for which cost or pricing data are required; or (3) that require the subcontractor to furnish cost, funding, or performance reports. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.215-10 Price Reduction for Defective Certified Cost or Pricing Data (AUG 2011) (Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.216-16 INCENTIVE PRICE REVISION -- FIRM TARGET (OCT 1997) (Applicable to subcontracts with firm targets (i.e. Fixed Price Incentive Fee or Cost Plus Incentive Fee type contracts). (The subcontract must incorporate the appropriate target price, ceiling price, and percentages. The blank in paragraph (c) should be completed with an appropriate number of days, consistent with the requirements of the prime contract. "Contracting Officer," "contract administrative office" and "Government" mean "Lockheed Martin." Paragraph (i) is deleted. The blanks in the clause are completed

with the amounts specified in the contract. (Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101.)

FAR 52.216-17 INCENTIVE PRICE REVISION–SUCCESSIVE TARGETS (OCT 1997) (Applies to subcontracts with successive targets. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.222-2 Payment for Overtime Premiums (JUL 1990) (Applies to cost-reimbursement subcontracts. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.227-3 ALT II PATENT INDEMNITY– ALTERNATE II (APR 1984)

FAR 52.229-8 Taxes -- Foreign Cost-Reimbursement Contracts (MAR 1990) (Applies to foreign cost-reimbursement subcontracts. Paragraph (a), insert: any country in which the contractor or any of its subcontractors performs work under this contract. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.232-17 Interest (OCT 2010) (Applies if subcontract contains FAR clauses which expressly refer to an Interest clause, e.g. FAR 52.216-16 or FAR 52.216-17. "Government" means "Lockheed Martin" Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.243-2 ALT I Changes -- Cost-Reimbursement Alternate I (Apr 1984) (Applies to cost-reimbursement subcontracts. "Contracting Officer" and "Government" mean "Lockheed Martin." In paragraph (a) add as subparagraph (4) "Delivery schedule." In paragraph (d) the reference to the disputes clause is deleted. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.245-9 Use and Charges (APR 2012) (Applies when Government Property is provided. Communications with the Government under this clause will be made through Lockheed Martin. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.247-64 Alt I Preference for Privately Owned U.S. –Flag Commercial Vessels (Feb-06) – Alternate I (APR 2003) (In the last sentence of paragraph (c) "Subcontractor" means "Seller and lower term subcontractor." "Contracting Officer" means "Lockheed Martin." Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.247-67 Submission of Transportation Documents for Audit (FEB 2006) (Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

FAR 52.247-68 Report of Shipment (REPSHIP) (FEB 2006)

FAR 52.251-1 Government Supply Sources (APR 2012)

DFARS 252.209-7010 Critical Safety Items (AUG 2011)

DFARS 252.229-7003 TAX EXEMPTIONS (ITALY) (JAN 2002)

DFARS 252.211-7008 Use of Government - Assigned Serial Numbers (SEP 2010). (Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

DFARS 252.219-7004 SMALL BUSINESS SUBCONTRACTING PLAN (TEST PROGRAM) (AUG 2008) (Applicable to participants in the DoD Test Program for the Negotiation of Comprehensive Small Business Subcontracting Plans FAR 52.219-9 is required in other subcontracts that meet the criteria specified in that clause. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

DFARS 252.222-7006 Restrictions on the Use of Mandatory Arbitration Agreements (DEC 2010) (Applies if contract exceeds \$1,000,000 that will be funded in whole or part with Fiscal Year 2010 appropriated funds. The certification in paragraph (b)(2) applies to both Seller in its own capacity and to Seller's covered subcontractors. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

DFARS 252.223-7006 Prohibition on Storage and Disposal of Toxic and Hazardous Materials (APR 2012)

DFARS 252.223-7008 PROHIBITION OF HEXAVALENT CHROMIUM (MAY 2011)

DFARS 252.225-7012 Preference for Certain Domestic Commodities (DEC 2008) (Applies if Seller is furnishing any of the items covered by this clause.)

DFARS 252.228-7001 Ground and Flight Risk (JUN 2010)
(In paragraph (a)(1)(i) "this contract" means "the prime contract." The following is added at the beginning of the clause: "Communications between Seller and the Government shall be made through Lockheed Martin. Any equitable adjustment provided for this clause shall be implemented in this contract to the extent such adjustment is implemented in the prime contract." Subparagraphs (d)(2)(ii), (d)(3)(ii) and the last sentence of subparagraph (j)(2) are deleted. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

DFARS 252.234-7002 Earned Value Management System (APR 2008)
(In paragraph (e) "Government" means "Lockheed Martin and Government." Paragraphs (i) and (j) are deleted. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

DFAR 252.234-7004 Alt I Cost and Software Data Reporting System Alternative I (NOV 2010)
(Applies to subcontracts in excess of \$50,000,000. In paragraph (b), "Government" means Lockheed Martin. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

DFARS 252.239-7016 Telecommunications Security Equipment, Devices, Techniques, and Services (DEC 1991) (Applies if this contract requires securing telecommunications. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

DFARS 252.243-7002 Requests for Equitable Adjustment (MAR 1998) ("Government" means "Lockheed Martin." Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

DFARS 252.244-7000 Subcontracts for Commercial Items and Commercial Components (DoD Contracts (AUG 2009)) (The clause mandates flowdown of the DFARS provisions identified in the clause.)

DFAR 252.245-7001 Tagging, Labeling, and Marking of Government-Furnished Property (APR 2012) (Applies to subcontracts where the items furnished by the subcontractor will be subject to serialized tracking. Does not apply if contract is for a COMMERCIAL Item as defined in FAR Part 2.101)

DFAR 252.245-7004 Reporting, Reutilization, and Disposal (APR 2012)

NAVAIR 5252.204-9504 DISCLOSURE OF CONTRACT INFORMATION (JAN 2007)

PART III. SPECIAL PURCHASE ORDER REQUIREMENTS

(For purposes of this Section H, "Government" means the United States Government.)

H-3 NAVAIR 5252.245-9500 GOVERNMENT PROPERTY FOR THE PERFORMANCE OF THIS CONTRACT (FEB 2009)

Pursuant to FAR Clause 52.245-1 "Government Property (Cost-Reimbursement, Time and Material, or Labor Hour Contracts) (JUN 2007) the Seller is authorized to use the following Government property on a rent-free basis in performing this contract:

- (a) Government Property currently accountable under the following contracts: TBD
- (b) Government-Furnished Property provided under this contract: TBD The Seller is responsible for scheduling the use of all property covered by this clause and the Government shall not be responsible for Seller caused conflicts, delays, or disruptions to any work performed by the Seller due to use of any or all such property, either under this contract or any other contracts under which use of such property is authorized.
- (c) Government Furnished Property Provided "As Is": The Government Furnished Items listed in (a) or (b), above, that are provided to the Seller in an "As-Is" condition pursuant to FAR 52.245-1 may be repaired or modified, to meet contractual requirements, as a direct cost to this contract, as defined in items (1) through (4), below.
 - (1) If "As-Is" Government Furnished Items listed in (a) or (b), above, require refurbishment, the cost of which does not exceed 50% of acquisition cost, then Seller may proceed with refurbishment using contract funds and without obtaining Contracting Officer approval.
 - (2) If refurbishment costs exceed 50% of acquisition cost, the Seller shall seek PCO authorization, through LOCKHEED MARTIN, prior to undertaking a repair.
 - (3) Any repair or modification of these items shall not affect the title of the Government.
 - (4) Any refurbishment of Government Furnished Items provided As-Is shall not negate the warranty. That is, the Government does not warrant the condition of these assets provided to the Seller.

H-5 NAVAIR 5252.223-9501 MATERIAL SAFETY DATA SHEET (MSDS) (APR 2009)

H-11 NAVAIR 5252.227-9511 DISCLOSURE, USE AND PROTECTION OF PROPRIETARY INFORMATION (FEB 2009)

- (a) During the performance of this contract, the Government may use an independent services contractor (ISC), who is neither an agent nor employee of the Government. The ISC may be used to conduct reviews, evaluations, or independent verification and validations of technical documents submitted to the Government during performance.
- (b) The use of an ISC is solely for the convenience of the Government. Except as otherwise provided by separate agreement between the ISC and the seller, the ISC has no obligation to the seller. The seller is required to provide full cooperation, reasonable working facilities and access to the ISC for the purposes stated in paragraph (a) above.
- (c) Since the ISC is neither an employee nor agent of the Government, any findings, recommendations, analyses, or conclusions of such a contractor are not those of the Government.
- (d) The seller acknowledges that the Government has the right to use ISCs as stated in paragraph (a) above. It is possible that under such an arrangement the ISC may require access to or the use of information, which is proprietary to the seller in addition to third party proprietary data that the seller is authorized to disclose.
- (e) To protect any such proprietary information from unauthorized disclosure or use, and to establish the respective rights and duties of both the ISC and seller, the seller agrees to enter into a direct agreement with any ISC as the Government requires. The ISC will be responsible for initiating contact with the seller sufficiently in advance of any work that may require facility access, cooperation from LM, or access to proprietary information belonging to the seller or to third parties who may have authorized the seller to disclose such data to enable the seller to arrange for such access and cooperation and to obtain the necessary agreements. A properly executed copy of the agreement will be provided to the Procuring Contracting Officer.

H-14 NAVAIR 5252.211-9510 CONTRACTOR EMPLOYEES (MAY 2011)

- (a) In all situations where contractor personnel status is not obvious, all contractor personnel are required to identify themselves to avoid creating an impression to the public, agency officials, or Congress that such contractor personnel are Government officials. This can occur during meeting attendance, through written (letter or email) correspondence or verbal discussions (in person or telephonic), when making presentations, or in other situations where their contractor status is not obvious to third parties. This list is not exhaustive. Therefore, the contractor employee(s) shall:
 - (1) Not by word or deed give the impression or appearance of being a Government employee;
 - (2) Wear appropriate badges visible above the waist that identify them as contractor employees when in Government spaces, at a Government-sponsored event, or an event outside normal work spaces in support of the contract/order;

- (3) Clearly identify themselves as contractor employees in telephone conversations and in all formal and informal written and electronic correspondence. Identification shall include the name of the company for whom they work;
 - (4) Identify themselves by name, their company name, if they are a subcontractor the name of the prime contractor their company is supporting, as well as the Government office they are supporting when participating in meetings, conferences, and other interactions in which all parties are not in daily contact with the individual contractor employee; and
 - (5) Be able to provide, when asked, the full number of the contract/order under which they are performing, and the name of the Contracting Officer's Representative.
- (b) If wearing a badge is a risk to safety and/or security, then an alternative means of identification maybe utilized if endorsed by the Contracting Officer's Representative and approved by the Contracting Officer.
 - (c) The Contracting Officer will make final determination of compliance with regulations with regard to proper identification of contractor employees.

**H-15 NAVAIR 5252.228-9501 LIABILITY INSURANCE (NAVAIR) (MAR 1999)
(APPLICABLE TO COST-REIMBURSEMENT ITEMS ONLY)**

(APPLICABLE TO COST-REIMBURSEMENT CONTRACT LINE ITEMS ONLY)

The following types of insurance are required in accordance with the clause entitled, "FAR 52.228-5, "Insurance--Work on a Government Installation"" or "52.228-7, "Insurance--Liability to Third Persons"" and shall be maintained at no less than the minimum amounts shown:

- (a) Comprehensive General Liability: \$200,000 per person and \$500,000 per accident for bodily injury.
- (b) Automobile Insurance: \$200,000 per person and \$500,000 per accident for bodily injury and \$500,000 per accident for property damage.
- (c) Standard Workman's Compensation and Employer's Liability Insurance (or, where maritime employment is involved, Longshoremen's and Harbor Worker's Compensation Insurance) in the minimum amount of \$100,000.
- (d) Aircraft public and passenger liability: \$200,000 per person and \$500,000 per occurrence for bodily injury, other than passenger liability; \$200,000 per occurrence for property damage. Passenger bodily injury liability limits of \$200,000 per passenger, multiplied by the number of seats or number of passengers, whichever is greater.

H-16 NAVAIR 5252.232-9509 REIMBURSEMENT OF TRAVEL, PER DIEM, AND SPECIAL MATERIAL COSTS (NAVAIR) (OCT 2006) (APPLICABLE TO COST-REIMBURSEMENT ITEMS ONLY)

- (a) Area of Travel. Performance under this contract may require travel by contractor personnel. If travel, domestic or overseas, is required, the contractor is responsible for making all necessary arrangements for its personnel. These include but are not limited to: medical

examinations, immunizations, passports/visas/etc., and security clearances. All contractor personnel required to perform work on any U.S. Navy vessel shall obtain boarding authorization from the Commanding Officer of the vessel before boarding.

- (b) Travel Policy. The Government will reimburse the contractor for allowable travel costs incurred by the contractor in performance of the contract in accordance with FAR Subpart 31.2. Travel required for tasks assigned under this contract shall be governed in accordance with: Federal Travel Regulations, prescribed by the General Services Administration for travel in the conterminous 48 United States, (hereinafter the FTR); Joint Travel Regulation, Volume 2, DoD Civilian Personnel, Appendix A, prescribed by the Department of Defense, for travel in Alaska, Hawaii, The Commonwealth of Puerto Rico, and territories and possessions of the United States (hereinafter JTR); and Standardized Regulations (Government Civilians, Foreign Areas), Section 925, "Maximum Travel Per Diem Allowances for Foreign Areas," prescribed by the Department of State, for travel in areas not covered in the FTR or JTR (hereinafter the SR).
- (c) Travel. Travel and subsistence are authorized for travel beyond a fifty-mile radius of the contractor's office whenever a task assignment requires work to be accomplished at a temporary alternate worksite. No travel or subsistence shall be charged for work performed within a fifty-mile radius of the contractor's office. The contractor shall not be paid for travel or subsistence for contractor personnel who reside in the metropolitan area in which the tasks are being performed. Travel performed for personal convenience, in conjunction with personal recreation, or daily travel to and from work at the contractor's facility will not be reimbursed.
 - (1) For travel costs other than described in paragraph (c) above, the contractor shall be paid on the basis of actual amount paid to the extent that such travel is necessary for the performance of services under the contract and is authorized by the COR in writing.
 - (2) When transportation by privately owned conveyance is authorized, the contractor shall be paid on a mileage basis not to exceed the applicable Government transportation rate as contained in the FTR, JTR or SR. Authorization for the use of privately owned conveyance shall be indicated in the basic contract. Distances traveled between points shall be shown on invoices as listed in standard highway mileage guides. Reimbursement will not exceed the mileage shown in the standard highway mileage guides.
 - (3) The contractor agrees, in the performance of necessary travel, to use the lowest cost mode commensurate with the requirements of the mission as set forth in the basic contract and in accordance with good traffic management principles. When it is necessary to use air or rail travel, the contractor agrees to use coach, tourist class, or similar accommodations to the extent consistent with the successful and economical accomplishment of the mission for which the travel is being performed.

- (4) The contractor's invoices shall include receipts or other evidence substantiating actual costs incurred for authorized travel. In no event will such payments exceed the rates of common carriers.
- (d) Vehicle and/or Truck Rentals. The contractor shall be reimbursed for actual rental/lease of special vehicles and/or trucks (i.e., of a type not normally used by the contractor in the conduct of its business) only if authorized in the basic contract or upon approval by the COR. Reimbursement of such rental shall be made based on actual amounts paid by the contractor. Use of rental/lease costs of vehicles and/or trucks that are of a type normally used by the contractor in the conduct of its business are not subject to reimbursement.
- (e) Car Rental. The contractor shall be reimbursed for car rental, exclusive of mileage charges, as authorized in the basic contract or upon approval by the COR, when the services are required to be performed beyond the normal commuting distance from the contractor's facilities. Car rental for a team on TDY at one site will be allowed for a minimum of four (4) persons per car, provided that such number or greater comprise the TDY team.
- (f) Per Diem. The contractor shall not be paid for per diem for contractor personnel who reside in the metropolitan areas in which the tasks are being performed. Per Diem shall not be paid on services performed within a fifty-mile radius of the contractor's home office or the contractor's local office. Per Diem is authorized for contractor personnel beyond a fifty-mile radius of the contractor's home or local offices whenever a task assigned requires work to be done at a temporary alternate worksite. Per Diem shall be paid to the contractor only to the extent that overnight stay is necessary and authorized under this contract. The authorized per diem rate shall be the same as the prevailing per diem in the worksite locality. These rates will be based on rates contained in the FTR, JTR or SR. The applicable rate is authorized at a flat seventy-five (75%) percent on the day of departure from contractor's home or local office, and on the day of return. Reimbursement to the contractor for per diem shall be limited to actual payments to per diem defined herein. The contractor shall provide actual payments of per diem defined herein. The contractor shall provide supporting documentation for per diem expenses as evidence of actual payment.
- (g) Shipboard Stays. Whenever work assignments require temporary duty aboard a Government ship, the contractor will be reimbursed at the per diem rates identified in paragraph C8101.2C or C81181.3B(6) of the Department of Defense Joint Travel Regulations, Volume II.
- (h) Special Material. "Special material" includes only the costs of material, supplies, or services which is peculiar to the ordered data and which is not suitable for use in the course of the contractor's normal business. It shall be furnished pursuant to specific authorization approved by the COR. The contractor will be required to support all material costs claimed by its costs less any applicable discounts. "Special materials" include, but are not limited to, graphic reproduction expenses, or technical illustrative or design requirements needing special processing.

H-18 WORK SHARE AGREEMENTS

Subcontractors shall not enter into any new work share agreements with any subcontractors that specify that a subcontractor will receive a certain amount of business based solely on a dollar amount or percentage of contract or program cost as of the effective date of this contract.

H-25 NAVAIR 5252.246-9526 PROVISIONAL ACCEPTANCE UNDER SPECIAL CONDITIONS (OCT 2005)

- (a) Acceptance under Special Conditions. LOCKHEED MARTIN may, at the discretion of the Authorized Procurement Representative, finally or provisionally accept any supply prior to completion of work on such supply in the following situations:
 - (1) When the SELLER, despite the exercise of due diligence, encounters unavoidable delay in securing SELLER-furnished property;
 - (2) When Lockheed Martin or Government-furnished property suitable for installation in any supply to be furnished hereunder is not delivered to the SELLER in sufficient time to permit installation by the SELLER prior to the date the supply is scheduled for delivery; or,
 - (3) When defects or deficiencies are known to exist in the Item, but when correction of the defects or deficiencies is not practicable within the delivery schedule set forth in the contract.

- (b) Provisional Acceptance of WORK with Less Than Full Capability.
 - (1) Notwithstanding anything to the contrary in paragraph (a) above, LOCKHEED MARTIN may provisionally accept WORK that do not meet the capabilities specified in this Contract prior to completion.
 - (2) LOCKHEED MARTIN shall withhold as consideration an amount from the Contract price that represents the estimated price of incorporating the required capabilities (e.g., for software- related capabilities, the estimated price to install compliant software) specified in this Contract. The associated withhold for each missing capability will be released after LOCKHEED MARTIN inspection and approval of the incorporated capability.

- (c) Provisional Acceptance of WORK with Unverified or Deficient Requirements.
 - (1) Due to the concurrent nature of SDD Contract and this Contract, acceptance of WORK delineated shall not be contingent upon completion of all verification requirements under SDD Contract. All unverified requirements shall be listed on the CoC. No amounts shall be withheld at the acceptance or provisional acceptance of the Item due to the fact that the requirements listed on the Unverified Specification Requirements have yet to complete verification.
 - (2) Notwithstanding the above, if there is an identified deficiency against a requirement stated in this Contract or the SDD Contract, a withhold shall be taken, except in the case where LOCKHEED MARTIN has authorized a Record Variance.

- a. If a Preliminary Engineering Change Proposal (PECP) to correct the deficiency has been authorized, a withhold shall be taken at the time of provisional acceptance. The withhold amount shall be negotiated between LOCKHEED MARTIN and the SELLER and shall be based on the estimated price for correction of the deficiency. The withhold amount shall be released on a monthly basis at the rate of 80% of the SELLER's incurred costs to correct the deficiency. The withhold shall be fully released after LOCKHEED MARTIN inspection and approval that the deficiency against which the withhold was taken has been corrected.
- b. If a PECP to correct the deficiency has not been authorized, a withhold shall be taken at the time of provisional acceptance. The withhold amount, subject to mutual agreement, shall be negotiated between LOCKHEED MARTIN and the SELLER.
- c. Nothing in this clause shall restrict LOCKHEED MARTIN's rights to withhold acceptance or provisional acceptance of the Items due to defects or deficiencies in materials or workmanship or with non-conformances unrelated to the materials and workmanship.