



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

JUN 04 2007

MEMORANDUM FOR SENIOR PROCUREMENT EXECUTIVES  
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Input on Potential Revisions to DoD Profit Policies

DPAP is currently conducting a review of the Department's contract profit policies. The review includes soliciting views from the public and from DoD personnel regarding potential improvements to existing policies and/or regulations.

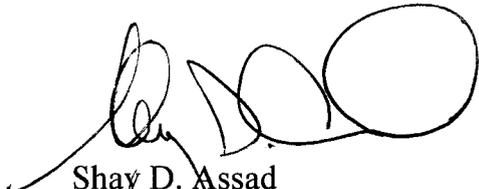
The attached Federal Register Notice published on May 22, 2007 requested public input regarding the effectiveness of the current profit policies, as well as any changes to these policies or alternative approaches that should be considered. In conjunction with this publication, I am seeking similar input from contracting personnel in the Military Departments and Other Defense Agencies. To this end, I ask that you query your contracting workforce for their input on any potential revisions to existing DoD contract profit policies and regulations. In particular, we are interested in comments on those policies that are working effectively and those that should be revised or eliminated, along with supporting rationale. Potential areas for consideration include, but are not limited to, the following:

- The contractor risk factors used in DoD's structured approach for developing profit/fee objectives, particularly with regard to—
  - The pertinence of the existing factors;
  - Whether the ranges and normal values used for the existing factors are still valid; and
  - Whether there are other risk factors that are not reflected in the existing policies.
- Potential changes to—
  - The technology incentive at DFARS 215.404-71-2(c)(2) and (d)(4);
  - The contract type risk factor at DFARS 215.404-71-3;



- The facilities capital employed factor at DFARS 215.404-71-4;
  - The cost efficiency factor at DFARS 215.404-71-5;
  - The modified weighted guidelines at DFARS 215.404-72;
  - The policies as they provide for consideration of the amount of investment a contractor has in a contract;
  - The policies as they provide for consideration of the extent of contract financing payments;
  - The policies as they apply to contracts for services; and
  - The policies as they apply to contracts for research, development, test, and evaluation.
- The extent, if any, that the existing structured approaches for profit analysis should play a role in establishing the base fee or pool on award-fee contracts.

**Input should be submitted to Mr. Bill Sain at [bill.sain@osd.mil](mailto:bill.sain@osd.mil) no later than July 23, 2007.** If you have any questions or require additional information, please contact Mr. Sain by E-mail or phone at (703)602-0293.



Shay D. Assad  
Director, Defense Procurement  
and Acquisition Policy

Attachments:  
As stated

[Federal Register: May 22, 2007 (Volume 72, Number 98)]  
[Proposed Rules]  
[Page 28663]  
From the Federal Register Online via GPO Access [wais.access.gpo.gov]  
[DOCID:fr22my07-33]

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DEPARTMENT OF DEFENSE

Defense Acquisition Regulations System

48 CFR Part **215**

Contract Profit/Fee Policies

AGENCY: Defense Acquisition Regulations System, Department of Defense (DoD).

ACTION: Request for public input.

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SUMMARY: DoD is conducting a review of the Department's contract profit/fee policies. As part of this review, DoD would like to hear the views of interested parties regarding the effectiveness of the profit/fee policies presently used for DoD contracts.

DATES: Submit written comments to the address shown below on or before July 23, 2007.

ADDRESSES: Submit comments to: Office of the Director, Defense Procurement and Acquisition Policy, ATTN: OUSD (AT&L) DPAP (CPF), IMD 3C132, 3062 Defense Pentagon, Washington, DC 20301-3062. Comments also may be submitted by facsimile at (703) 602-7887, or by e-mail at [Bill.Sain@osd.mil](mailto:Bill.Sain@osd.mil).

FOR FURTHER INFORMATION CONTACT: Mr. Bill Sain, by telephone at (703) 602-0293, or by e-mail at [Bill.Sain@osd.mil](mailto:Bill.Sain@osd.mil).

SUPPLEMENTARY INFORMATION: DoD contract profit/fee policies, to include policy for developing pre-negotiation profit or fee objectives, are described in the Defense Federal Acquisition Regulation Supplement (DFARS), in sections **215.404-4** and **215.404-70** through **215.404-76**. One of the key aspects of DoD's profit policy is the Weighted Guidelines. While there have been some revisions to the Weighted Guidelines over the past few years, the basis for the existing policy was established in the mid-1980s. Since then, there have been a number of changes, including (1) the evolution of DoD's acquisition programs, (2) extensive industry consolidation, and (3) a significant increase in the number of DoD contracts for services. In light of these many changes, DoD is interested in receiving public input on the existing profit/fee policies, with regard to those that are working effectively and those that should be revised or eliminated, along with supporting rationale.

Potential areas for consideration include, but are not limited to, the following:

The contractor risk factors used in DoD's structured approach for developing profit/fee objectives, particularly with regard to--

The pertinence of the existing factors;  
Whether the ranges and normal values used for the existing factors are still valid; and

Whether there are other risk factors that are not reflected in the existing policies.

Any changes needed to--

The technology incentive at DFARS **215.404-71-2(c)(2)** and (d)(4);

The contract type risk factor at DFARS **215.404-71-3**;

The facilities capital employed factor at DFARS **215.404-71-4**;

The cost efficiency factor at DFARS **215.404-71-5**;

The modified weighted guidelines at DFARS **215.404-72**;

The policies as they provide for consideration of the amount of investment a contractor has in a contract;

The policies as they provide for consideration of the extent of contract financing payments;

The policies as they apply to contracts for services; and

The policies as they apply to contracts for research, development, test, and evaluation.

Whether any of the existing structured approaches for profit analysis should play a role in establishing the base fee or pool on award-fee contracts.

Michele P. Peterson,  
Editor, Defense Acquisition Regulations System.  
[FR Doc. E7-9754 Filed 5-21-07; 8:45 am]  
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