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**Deputy Secretary of Defense Request.** On December 1, 2003, the Deputy Secretary of Defense requested an audit by the Department of Defense Office of the Inspector General, stating that “In light of recent revelations by The Boeing Company concerning apparent improprieties by two of the company’s executives, please determine whether there is any compelling reason why the Department of the Air Force should not proceed with its Tanker Lease Program. In particular, I would appreciate knowing whether any of these revelations affect any of your previous analysis of this program.”

On March 29, 2004, we issued Department of Defense Office of the Inspector General Report No. D-2004-064, “Acquisition of the Boeing KC-767A Tanker Aircraft,” stating that the Air Force used an inappropriate procurement strategy and demonstrated neither best business practices nor prudent acquisition procedures to provide sufficient accountability for the expenditure of \$23.5 billion for the KC-767A tanker program. We identified five statutory provisions that have not yet been satisfied relating to: commercial items; testing (two statutes); cost-plus-a-percentage-of-cost system of contracting; and leases. Therefore, we recommended that DoD not proceed with the program until it resolves the issues pertaining to the procurement strategy, acquisition procedures, and statutory requirements.

Based on our findings, we also recommended that the Deputy Secretary consider the following options.

1. After implementation of audit recommendations to resolve contracting and acquisition issues, proceed with the sole-source acquisition of the Boeing KC-767A Tanker Program for 100 or fewer aircraft.
2. Initiate a new major Defense acquisition program based on the results of an analysis of alternatives for military tanker aircraft.
3. Implement a mix of Option 1 for some of the tankers and Option 2 for subsequent tankers.

Our audit results showed that, contrary to the Air Force interpretation, the Boeing KC-767A Tanker Program did not meet the statutory definition of a commercial item. No commercial market for this tanker aircraft existed to establish reasonable prices by the forces of supply and demand. Consequently, the commercial item procurement strategy did not provide the Air Force with sufficient cost or pricing data to make multi-billion dollar decisions for the Boeing KC-767A Tanker Program and did not demonstrate the level of accountability needed to conclude that the prices negotiated represent a fair expenditure of DoD funds (Issue A). The Air Force used Section 8159 of the Department of Defense Appropriations Act for FY 2002 to justify its informal acquisition strategy with the primary goal to expeditiously lease 100 Boeing KC-767A Tanker aircraft to replace its aging KC-135E Tanker fleet. In doing so, the Air Force did not demonstrate best business practices and prudent acquisition procedures in developing this program and did not comply with statutory provisions for testing (Issue B).

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Specific aspects of Issue A were:

- **Commercial Item Procurement Strategy.** The Air Force commercial item procurement strategy prevented any visibility into Boeing's costs and required the Air Force to use a fixed-price type contract. In a fixed-price type contract, the contractor retains all of the savings if the contractor's actual costs are lower than the estimates. Cost or fixed-price incentive type contracts are more appropriate for initial development, modifications, and logistics support. The strategy also exempted the sole-source provider from the requirement to submit cost or pricing data. The strategy places the Department at high risk for paying excessive prices and profits and precludes good fiduciary responsibility for DoD funds.

Using the commercial item procurement strategy, Air Force program officials:

- **Green (Commercial) Aircraft** [REDACTED]. Waived obtaining cost or pricing data without obtaining data on prior Boeing commercial sales to establish price reasonableness, did not negotiate engine prices directly with engine manufacturers (a standard commercial practice), and relied on a questionable mix of Boeing 767 commercial aircraft models with a discounted Internet price to establish a fixed-price baseline of \$7.9 billion for 100 "green aircraft" (basic Boeing 767 aircraft). The commercially available data and assumptions that the Air Force program officials relied on were not sufficient to support the fixed-price baseline price and could cause the price to be overstated from [REDACTED] to [REDACTED] based on an analysis performed by the Institute for Defense Analysis and our analysis of a higher discounted price appropriate for a significant competitive order.
- **Development** [REDACTED]. Relied on data that Boeing provided to the Italian military for the Global Tanker Transport Aircraft (GTTA) with other assumptions for testing and certification and then added profit and financing costs to support the Air Force share of [REDACTED] for GTTA development. The Air Force negotiating team also used cost estimating relationships to other programs, Boeing engineering estimates, and other budget data to calculate Air Force-specific development costs of [REDACTED]. The data used were not sufficient to establish a fixed-price baseline of [REDACTED] for development of the 100 tanker aircraft.
- **Modification** [REDACTED]. Used questionable comparisons of modifications costs for other programs and Boeing engineering estimates and vendor quotes without determining the reliability of those estimates or quotes, and then applied a decrement factor to establish a fixed-price baseline of [REDACTED] for the modification of 100 "green aircraft." The data that Air Force program officials used were not sufficient to establish the modification baseline price, which could cause the modification price to be overstated by at least [REDACTED] based on an analysis performed by the Institute for Defense Analyses. The magnitude of the military modifications obliges the Air Force to request Congress to provide the statutory authority required by Department of Defense Appropriations Act for FY 2002 to modify leased general purpose Boeing 767 aircraft.

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- **Limitation of Earnings and Termination Clauses.** Attempted to limit Boeing's earnings to [REDACTED] percent by including a limitation of earnings clause in the proposed contract. The clause was written to exclude any Government audit rights and to use Boeing's independent auditor to provide an attestation on profits earned. Only the Inspector General has the statutory authority to approve the use of non-Federal audit services. The Defense Contract Audit Agency (DCAA) is the appropriate audit entity and is in the best position to provide the requisite audit services. Further, the clause allowed Boeing to include questionable items in its costs and prevented the Government from any visibility of the costs with only a final accounting by Boeing's auditor after the last aircraft is delivered in FY 2015. The clause is highly detrimental to the fiduciary interests of DoD. The clause also appears to have created a statutorily prohibited cost-plus-a-percentage-of-cost system of contracting. Also, the termination for convenience clause in the proposed contract does not provide sufficient controls or audit rights to adequately determine the Government's termination liability and to prevent a possible Anti-Deficiency Act violation.
  - **Logistics Support [REDACTED].** Used a mix of pricing data from brochures relating to other aircraft and escalated 1980s pricing data for support equipment costs that included a [REDACTED] error to justify a fixed-price fleet logistics support price of [REDACTED] for 12 years. The data used were not sufficient to support baseline fleet logistics support costs. Further, Air Force program officials set a 56 percent "performance aircraft availability" for Boeing to receive 100 percent of the annual contract price without benchmarking the availability rates of comparable aircraft systems. The 12-year sole-source contract is also premature because the Air Force should first comply with statutory requirements in the National Defense Authorization Act for FY 2004; Section 2464 of title 10, United States Code; and the Strom Thurmond National Defense Authorization Act for FY 1999 requiring analyses of the costs and benefits of organic or contractor support, core logistics, and contract length.
  - **Lease [REDACTED].** Did not meet three of six criteria requirements for an operating lease as described in Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget (2003)." Meeting the Office of Management and Budget criteria for leases is a statutory requirement of Section 8159 of the Department of Defense Appropriations Act for FY 2002. Further, the lease for 20 tankers will increase Air Force costs by at least [REDACTED] more than purchasing the aircraft.

Specific aspects of Issue B were:

- **Acquisition Strategy.** The Office of the Assistant Secretary of the Air Force (Acquisition) did not establish an appropriate acquisition strategy for acquiring tanker aircraft to satisfy warfighter needs. Instead, the Air Force used Section 8159 of the Department of Defense Appropriations Act for FY 2002 to justify its informal acquisition strategy, the focus and goal of which was to expeditiously lease 100 Boeing 767A Tanker aircraft without regard to best business practices, prudent

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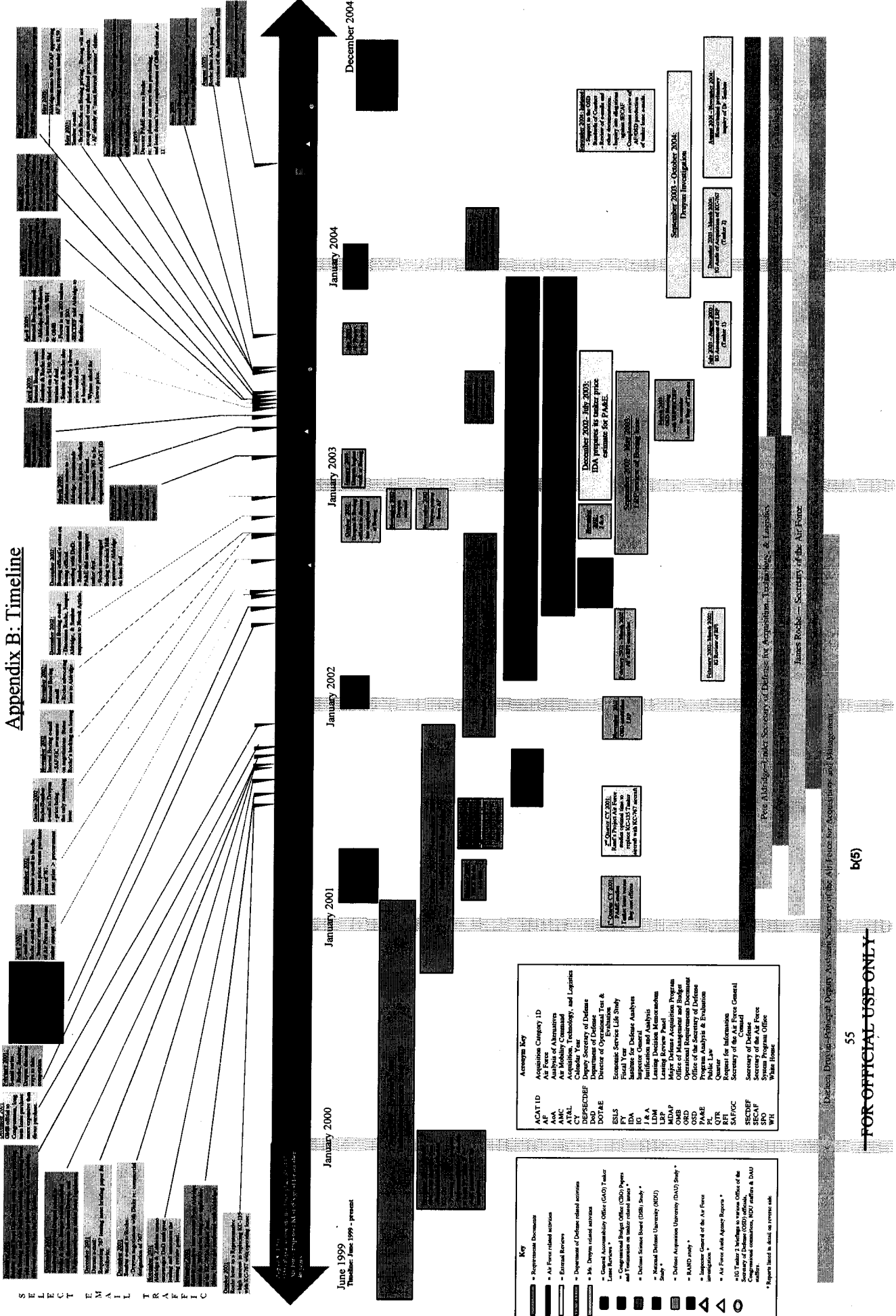
acquisition procedures, and compliance with statutory provisions for testing. Without a disciplined acquisition strategy, the Air Force cannot ensure to the warfighter that the delivered KC-767A Tanker aircraft will satisfy operational requirements.

Using the legislation as the informal acquisition strategy, Air Force officials did not:

- **System Engineering Requirements.** Fully develop system engineering requirements to convert the commercial non-developmental aircraft into an integrated military configuration. Without fully developing system engineering requirements for aircraft conversion, the Boeing KC-767A Tanker aircraft may not meet the operational requirement for a 40-year service life as well as command, control, communications, computers, and intelligence (C4I) support plan requirements.
- **Operational Requirements Document.** Tailor the first spiral or increment of the operational requirements document to warfighter requirements in the mission needs statement for future air refueling aircraft but instead tailored it to correlate closely with the capabilities of the Boeing 767 tanker variant that Boeing was producing for the Italian government. As a result, the first 100 KC-767A Tankers will not meet the operational requirement for interoperability and will not meet the mission capabilities in the operational requirements document to conduct secondary missions, such as cargo/passenger and aeromedical evacuation missions.

**Statutory Provisions for Testing.** Comply with Sections 2366 and 2399 of title 10, United States Code for determining the operational effectiveness, suitability, and survivability of the Boeing 767A Tanker aircraft before proceeding beyond low-rate initial production and committing to the subsequent production of all 100 Boeing KC-767A Tanker aircraft. By not complying with the statutory provisions, the Boeing KC-767A Tanker aircraft delivered to the warfighter may not be operationally effective, suitable, and survivable.

# Appendix B: Timeline



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January 2002  
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January 2004  
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December 2004  
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**Acronym Key**  
 ACAT ID  
 AA  
 AOA  
 AMC  
 AMIL  
 CT  
 DEPR/DEF  
 DOD  
 DOT/RE  
 ESLS  
 F.A.  
 IG  
 ILEP  
 J.A.  
 LEP  
 M.D.A.P.  
 M.D.A.P.  
 ORB  
 P.A.R.E.  
 QTR  
 RFI  
 S.A.F.G.C.  
 S.E.C.A.F.  
 W.P.

**Key**  
 ■ Representational Documents  
 ■ Air Force related activities  
 ■ External Reviews  
 ■ Department of Defense related activities  
 ■ Air Force related activities  
 ■ General Accounting Office (GAO) Task  
 ■ Congressional Budget Office (CBO) Papers  
 ■ and Testimony on theater related issues  
 ■ Defense Science Board (DSB) Study  
 ■ National Defense University (NDU)  
 ■ Defense Acquisition University (DAU) Study  
 ■ RAND Study  
 ■ Air Force Audit Agency Reports  
 ■ IG Tasking 2 findings to various Offices of the  
 Secretary of Defense (OSD) Staff  
 ■ Report listed in detail on reverse side

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Other Government Agency Reports on Tanker Related Issues:

General Accountability Office:

- GAO Report to Congressional Committees, US Combat Air Power, "Aging Refueling Aircraft Are Costly to Maintain and Operate, GAO/NSIAD-96-160," August 1996.
- GAO Briefing for the Senate Armed Services Committee, "Preliminary Information on Air Force Tanker Leasing Issues, GAO-02-724," May 2002.
- GAO Testimony Before the Subcommittee on Projection Forces, Committee on Armed Services, House of Representatives, Military Aircraft, "Information on Air Force Aerial Refueling Tankers, GAO-03-933T," June 24, 2003.
- GAO Testimony Before the Committee on Armed Services, House of Representatives, Military Aircraft, "Considerations in Reviewing the Air Force Proposal to Lease Aerial Refueling Aircraft, GAO-03-1048T," July 23, 2003.
- GAO Testimony Before the Committee on Commerce, Science, and Transportation, United States Senate, Military Aircraft, "Observations on the Air Force's Plan to Lease Aerial Refueling Aircraft, GAO-03-1143T," September 3, 2003.
- GAO Testimony Before the Committee on Armed Services United States Senate, Military Aircraft, "Observations on the Proposed Lease of Aerial Refueling Aircraft by the Air Force, GAO-03-923T," September 4, 2003.
- GAO Letter, Committee on Armed Services, United States Senate, Subject: Military Aircraft, Institute for Defense Analyses Purchase Price Estimate for the Air Force's Aerial Refueling Aircraft Leasing Proposal, GAO-04-164R, October 14, 2003.
- GAO Letter, Committee on Armed Services, United States Senate, Subject: Military Aircraft, Observations on DoD's Aerial Refueling Aircraft Acquisition Options, GAO-04-169R, October 14, 2003.
- GAO Report to Congressional Requesters, Military Aircraft, "DoD Needs to Determine Its Aerial Refueling Aircraft Requirements, GAO-04-349," June 2004.

Congressional Budget Office:

- CBO Paper "The Effects of Aging on the Costs of Operating and Maintaining Military Equipment," August 2001.
- CBO letter to Congressman regarding alternatives for modernizing the Air Force's fleet of tanker aircraft. May 7, 2002.
- CBO letter to Congressman regarding the report on leasing four Boeing 767 aircraft. July 23, 2002.
- CBO "Assessment of the Air Force's plan to Acquire 100 Boeing Tanker Aircraft," August 2003.
  - Given to Congressman in response to his request on August 26, 2003.
  - Briefed before the Committee on Commerce, Science, and Transportation United States Senate on September 3, 2003.
  - Briefed before the Committee on Armed Services United States Senate on September 4, 2003.
- CBO letter to Congressman regarding the cost of leasing 20 tanker aircraft and buying 80 under the negotiated financing arrangement or leasing 20 tanker aircraft and buying another 80 using separate new contracts. November 13, 2003.

Industrial College of the Armed Forces, National Defense University:

- Industrial College of the Armed Forces, National Defense University, "Tanker Lease Program: Acquisition 'Lessons Learned' or 'The Innovator's Dilemma'," April 20, 2004.

Defense Acquisition University:

- Defense Acquisition University, "Tanker Lease Program: Acquisitions 'Lessons Learned' or 'The Innovator's Dilemma'," September 3, 2004.

Defense Science Board:

- Defense Science Board Task Force Report on Aerial Refueling Requirements, Ma 2004.

Inspector General of the Air Force:

- The Inspector General of the Air Force, "Report of Investigation (S6329P) MS. Darleen A. Drnyan (SES) and [REDACTED] August 2002.

Air Force Audit Agency:

- "KC-135 Aircraft Engine replacement Requirements F-2003-011-FC4000," April 21, 2003.
- "Program Office Preparation for the KC-767A Aerial Tanker Acquisition, F2004-0005-FC3000," August 2004.

RAND:

- RAND, "Investigating Optimal Replacement of Aging Air Force Systems," 2003.
- RAND, Project Air Force, "Common Replacement Asset (CRA) Study Results Briefing, DB-419-AF", 2003. (Restricted distribution: not for public release)

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## Appendix C. Chronology of Events

The following is a not-all-encompassing chronology of events that correlate with the Timeline in Appendix B. The chronology of events provides an overview of what happened and who was accountable during the structuring and negotiating of the proposed lease contract for the Boeing KC-767A Tanker Program. The chronology of events is based on selected e-mails, memorandums, and excerpts from interviews that representatives from the Department of Defense Office of the Inspector General conducted of senior Office of the Secretary of Defense and Air Force officials associated with the Boeing KC-767A Tanker Program.

**August 1996.** In August 1996, the General Accounting Office (renamed the Government Accountability Office) issued a report, "Aging Refueling Aircraft are Costly to Maintain and Operate." The report stated that the KC-135 tanker aircraft were 30 to 40 years old and as a result were taking progressively more time and money to maintain and operate. However, the Air Force did not have immediate plans to replace the KC-135 aircraft because the Air Force considered the replacement of other aircraft (for example the C-5A and C-17 transport aircraft) a higher priority. At about the same time, the Air Force moved the date for beginning to replace the KC-135 tanker aircraft fleet from FY 2007 to FY 2013. Further, the General Accounting Office report stated that:

- In addition to refueling aircraft, the Air Force used the tanker fleet as cargo aircraft and suggested that the Air Force study replacing the KC-135s with dual-role aircraft for both the air refueling and airlift missions which might then enable the Air Force to begin recapitalizing the tanker fleet earlier than programmed.
- The Boeing Company projected that the KC-135 tanker aircraft could fly for many years beyond the turn of the century based on the average hours flown and a projected use of about 300 hours a year per aircraft. However, the report noted that the Boeing projection did not consider the effects of corrosion, widespread fatigue damage, and stress corrosion cracking on structural life, which could require major structural modifications and parts replacement.
- The Air Force extended depot maintenance time and cost growth and the deferral of some aircraft depot maintenance because actual maintenance costs were higher than budgeted amounts.
- Substantial projected costs were required to modify the KC-135 aircraft to improve reliability, maintainability, and capability, and to sustain the aircraft.
- Although aircraft replacement may be less than one-for-one, estimated cost to replace the KC-135 aircraft would be expensive. Preliminary cost estimates ranged from about \$100 million to \$150 million for each replacement aircraft and would compete with other acquisition programs.

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- If a limited number of tanker replacement aircraft were acquired annually, most of the KC-135 aircraft would operate well past 2020.

Subsequently, the Air Force studied tanker requirements and KC-135 economic service life and concluded that the KC-135s were viable until 2040.

**June 1999.** In June 1999, the Air Force began the “Tanker Requirements Study (TRS-05)” and completed it in February 2001. The Tanker Requirements Study determined the number of tanker aircraft and aircrews required to meet air-refueling requirements for 2005 and identified significant shortfalls in air refueling aircraft needed to support national strategy.

**August 1999.** In August 1999, the Air Force began the “KC-135 Economic Service Life Study” and released it on February 9, 2001. The purpose of the Study was to provide the best possible information for senior leadership to make an informed decision on retirement or modernization of the KC-135 fleet. The Study did not make a specific recommendation on the retirement date, but provided the necessary source information to ensure a robust air refueling capability for the then next 40 years and beyond. The results of the KC-135 Economic Service Life Study and the Tanker Requirements Study (TRS-05) were to be the cornerstone of Air Mobility Command’s Analysis of Alternatives for air refueling that was scheduled to begin in June 2001.

The KC-135 Economic Service Life Study focused on the cost of sustaining the KC-135 fleet through the year 2040 and related aircraft availability issues. The Study reflected forecast modification and operations and support costs without considering current and future budget constraints. The most likely aircraft availability projections were based on the assumption that suggested structural improvements and modifications were fully funded. Aircraft available would most likely improve from 292 aircraft in 2001 to a high of 342 aircraft in 2006 and then decrease to 290 aircraft in 2040.

The Study stated that depot level airframe and engine maintenance were the primary cost drivers to sustain the KC-135 fleet through 2040 and the airframe structural integrity of the KC-135 fleet remained strong. The Study estimated that the costs to maintain the aircraft structural integrity would increase from \$321.0 million in 2001 to \$1.1 billion annually in 2040. Further, the Study stated that aging-related structural repairs because of corrosion would continue to increase at a manageable rate. Repairs due to fatigue were insignificant and expected to remain so. In addition to routine depot repairs, fuel tank topcoat removal, the cost of overhauling the KC-135D/E model engine struts, plus three other notional major fleet wide repair programs had been identified and included. The Study stated that future engine costs would likely increase at a growth rate similar to their respective commercial equivalent engines.

**October 2000.** Air Force began preparing “Mission Need Statement (MNS) for the Future Air Refueling Aircraft AMC [Air Mobility Command] 004-01.”

**February 2001.** During the first half of CY 2001, Program Analysis and Evaluation studied leasing versus buying capital assets and concluded that leasing was more expensive than purchasing capital assets. Also during the first half of



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CY 2001, RAND Project Air Force,<sup>4</sup> investigated the optimal time to replace some Air Force systems, including the KC-135 tanker aircraft fleet and provided the Air Force their results as briefings. In October 2003, as a result of its studies, the RAND Corporation issued a report, "Common Replacement Asset (CRA) Study Results Briefing, DB-419-AF."<sup>5</sup>

On February 5, 2001, Mr. Harry C. Stonecipher, President and Chief Operating Officer, The Boeing Company provided an offer to General Michael E. Ryan, Air Force Chief of Staff for Boeing 767 tankers for support or replacement of the KC-135 fleet, either in part or whole. Boeing stated in its offer that:



May 2001. On May 7, Mr. William Schneider, Jr., Chairman, Defense Science Board, at the suggestion of Mr. Steve Friedman, Chairman, National Economic Council met with finance specialists at Citicorp (New York) to brief Citicorp on DoD interest in applying commercial financing techniques to selected DoD assets, including a replacement aerial tanker for the existing fleet of 500 KC-135 tanker aircraft, and to obtain Citicorp views on statutory and regulatory obstacles that prevent the use of commercial lease finance techniques to permit DoD to finance capital asset acquisitions and the sale-leaseback of DoD real property. Subsequently, the Secretary of Defense asked Dr. Dov Zakheim, Under Secretary of Defense (Comptroller) on May 11, 2001, to initiate a process to get commercial financing techniques moving and to coordinate with the appropriate people, including the DoD Office of General Counsel.

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<sup>4</sup>Project Air Force (PAF), a division of RAND, is the U.S. Air Force's federally funded research and development center for studies and analyses. Project Air Force provides the Air Force with independent analyses of policy alternatives affecting the development, employment, combat readiness, and support of current and future aerospace forces.

<sup>5</sup>The study is subject to a restricted distribution, not for public release.


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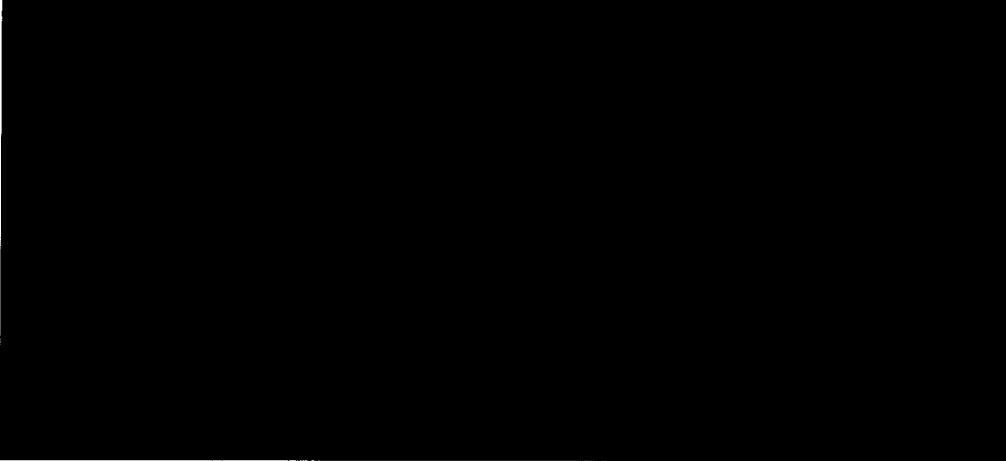
**June 2001.** On June 28, Brigadier General Daniel P. Leaf, Chairman, Air Force Requirements Oversight Council issued a memorandum, "Future Air Refueling Aircraft; AMC 004-01 (ACAT1)," in which he stated that the Air Force Requirements Oversight Council had reviewed the "Mission Need Statement (MNS) AMC 004-017 for AMC Future Air Refueling Aircraft" and concurred with the document as written. Further, the Chairman stated that the mission need had been defined through the Tanker Requirements Study – 05 and an Economic Service Life Study.

**End of June 2001.** An acquisition decision memorandum was signed for Milestone A, approval to enter technology development phase, that authorized the analysis of alternatives.

**September 2001.** Events of September 11, 2001, accelerated Air Force efforts to begin recapitalization of the aging KC-135 fleet.

On September 25, Boeing (Messrs. Daniels, Albaugh, Davis, Hill, Gillis, Gower, and Lindberg) met with Ms. Darleen A. Druyun, Principal Deputy Assistant Secretary of the Air Force (Acquisition and Management) to discuss the revised Boeing KC-767A tanker aircraft proposal. Discussions involved the leasing of tanker aircraft, building 18 to 20 tanker aircraft per year, a 10-year lease, replacing 136 KC-135E models with 100 Boeing KC-767A aircraft, and working with Congress, including a Senator and a Representative. As a result of the meeting, Mr. John Sams at Boeing was tasked to develop briefs on the tanker aircraft lease concept by September 26, 2001, for Mr. Daniels and Ms. Druyun to take to Capital Hill.

On September 27 and 28, 2001, 



**October 2001.** On October 7, Ms. Druyun prepared a draft letter to a Representative concerning the "jump-starting" of a replacement program for the KC-135 tanker fleet. She forwarded the draft to Major General Essex, Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition). On October 9, 2001, per the direction of Major General Essex, the draft was forwarded to the Office of the Secretary of the Air Force. On October 9, 2001, Dr. James G. Roche, Secretary of the Air Force sent a letter to a

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Representative, which was basically the same as the draft prepared by Ms. Druyun. In the letter, the Secretary stated:

Dear [Representative]:

I appreciate your interest in jump-starting the replacement program for our venerable KC-135 tanker fleet. These critical aircraft, which are the backbone of our nation's Global Reach capability, have an average age of over 41 years and are becoming more and more expensive to maintain. Due to the effects of age, these aircraft are spending over 300 days on average in depot maintenance, which affects our ability to respond to the many global demands on our force.

I strongly endorse beginning to upgrade this critical warfighting capability with new Boeing 767 aircraft. If Congress provides the needed supporting language, we could initiate this program through an operating lease with an option to purchase the aircraft in the future. This leasing approach will allow more rapid retirement and replacement of the KC-135Es. However, if the Congress determines this approach is not advisable, completing the upgrade through the purchase of new 767 airframes beginning in FY 02 will be in the best interest of the Air Force. To implement this transition, we intend to work with the USD(AT&L) and the OSD [Office of the Secretary of Defense] Comptroller to amend the FY03 budget currently being vetted through the Department.

From the warfighter's perspective, this initiative could provide the opportunity to expand our tanker vision from air refueling and limited airlift to include other key mission areas. We intend to consider elements of command and control, as well as intelligence, surveillance, and reconnaissance (ISR) for the KC-X-in other words, a smart tanker. This initiative will further enhance our efforts to expedite development and fielding of a Joint Stars Radar Technology Improvement Program on a 767 multi-mission command and control aircraft platform which we are hopeful the Congress will also expedite in the FY02 Appropriations Act.

I very much appreciate your support in the FY02 Appropriations Act as we work to upgrade our overburdened tanker and ISR fleets. Your interest and support are crucial as we move forward with this critical recapitalization effort.

On October 12, 2001, Mr. Gerald E. Daniels at Boeing sent an e-mail to Mr. Michael M. Sears at Boeing with a cc: to Mr. James F. Palmer, Mr. E. David Spong, Mr. Bob Gower, Mr. Randall R. Simons, Mr. John E. Ferguson, Mr. Rudy F. De Leon, and Mr. Andrew K. Ellis at Boeing in which he stated:

Good meetings with the USAF [U.S. Air Force] (Darleen [Druyun] and [Secretary of the Air Force] Roche) and members of Congress yesterday and a follow up strategy session with Phil and Rudy. My assessment...

HAC [House Appropriations Committee] has marked and probably included the PURCHASE of a small number of tankers and C-40s.

SAC [Senate Appropriations Committee] will mark next week with a LEASE of a large number of both. SAC is still trying to get the scoring rules changed, but CBO [Congressional Budget Office] and OMB [Office of Management and Budget] are not buying it. My best guess is that the conference committee will either go to the HAC solution or to the SAC plan with an operating lease instead of capital lease for 100 tankers and 20+ C-40s.

USAF wants us to support their language for an operating lease. Darleen will make the actual contract favorable and is willing to go to the

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fainacial [financial] market with us to stress the low risk involved in such a lease with the USAF so badly in need of tankers. I think we should support her plan.

Need help. What does an operating lease look like when we put it in the framework of our LRBP [long range building program]? And Phil, who is generally supportive of this approach, want to know what level of lease exposure is the saturation point for the copporation [corporation]. We talked about the likelihood of even taking part of the financing ourselves to help lower the perceived risk to other sources of financing. GE [General Electric] has expressed interest in putting together both an engine deal and a finance deal.

Randy, I would like you and John to work with Mike and Jim's organizations to put the operating lease strategy together and show the LRBP impact.

Bob Gower, we have to have language supportive of this operating lease fallback position that is acceptable to the USAF. Work that part through the DC [District of Columbia] office.

On October 15, 2001, Mr. Robert W. Gordon at Boeing helped the Air Force prepare a draft legislation memorandum concerning the tankers. According to Mr. Jerry A. Ferguson, Boeing representatives met with Ms. Druyun on October 16, 2001, to discuss revised language in the draft legislation. Ms. Druyun instructed Major General Essex to only send the draft legislation to a congressional staffer.

On October 17, 2001, the Joint Requirements Oversight Council approved the "Mission Need Statement (MNS) for Future Air Refueling Aircraft AMC 004-01." In a memorandum, "Future Air Refueling Aircraft Mission Need Statement (MNS)," to the Under Secretary of Defense for Acquisition, Technology, and Logistics, General Peter Pace, Vice Chairman of the Joint Chief of Staff stated that:

The Joint Requirements Oversight Council (JROC) validated and approved the Future Air Refueling Aircraft MNS [Mission Need Statement] and has assigned a Joint Potential Designator of 'Joint Interest' to the program. The JROC designates the Air Force and Air Mobility Command as the lead component and command for this program. In addition, the JROC directs [that] the program return to brief the results of the Air Force's Tanker Support Requirements Study 2005 and Economic Service Life Study upon their approval, and the Future Air Refueling Aircraft Analysis of Alternatives upon its completion.

October 30, 2001, the Air Force formed a "High Power Team" in Washington, DC to prepare a draft operational requirements document. The team included Air Mobility Command, Air Logistics Center, and Aeronautical Systems Center experts. However, before preparing the operational requirements document, the Air Force did not conduct an analysis of alternatives to make an analytical comparison of the operational effectiveness, suitability, and life-cycle costs of alternatives to determine the optimum solution to satisfy the capability needs in the Mission Need Statement as required by the then current version of the Chairman of the Joint Chiefs of Staff Instruction 3170.01B, "Requirements Generation System," April 15, 2001.

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**November 2001.** On November 1, Mr. Aldridge, Under Secretary of Defense for Acquisition, Technology, and Logistics, and Dr. Zakheim, Under Secretary of Defense (Comptroller) issued a memorandum, "Multiyear Leasing of Capital Assets," to the Secretaries of the Military Departments; the Commander in Chief, Special Operations Command; and the Directors of the Defense Agencies. In the memorandum, the Under Secretaries stated that "Leasing has several potential benefits to the Department and provides greater flexibility in dealing with changing requirements. The Department needs to use multiyear leases as a means of acquiring capital assets where it makes good business sense." Further, the Under Secretaries stated that they were jointly establishing a Leasing Review Panel and requested that the addressees identify candidate programs for acquisition by means of multiyear leases. The Under Secretaries also stated that the Panel would review all lease proposals projected to cost a total of \$250 million or more over the life of the lease. After review of the proposals, the Panel would make recommendations to the Defense Acquisition Board or the DoD Chief Information Officer.

On November 1, 2001, General Charles T. Robertson, Junior, Commander, Air Mobility Command signed the "Mission Need Statement (MNS) for Future Air Refueling Aircraft AMC 004-01." The Mission Need Statement stated in part that:

General Capabilities. The air refueling aircraft should have sufficient range and offload capability to support both inter- and intra-theater missions, be able to refuel the full range of receiver aircraft within a safe operating envelope, and be capable of carrying and off-loading a fuel type other than the primary fuel used by the new aircraft. The aircraft should be capable of refueling receptacle and probe-equipped receiver aircraft on the same mission, as well as refueling multiple aircraft simultaneously. The potential to maximize fuel off-load rates within receiver on-load capabilities is required. *AFDD 2-6.2, Air Refueling Doctrine*, indicates a need for the air refueling aircraft to also be capable of on-loading fuel as a receiver from other air refueling aircraft. Additionally, the aircraft must have the capability to rapidly progress from a ground non-start condition to airborne condition in order to meet short-notice alert launch timing requirements. The air refueling aircraft should have increased fuel efficiency and be self sufficient, capable of deploying with its own support equipment and personnel. Using forward area refueling point (FARP) procedures, aircraft should be able to offload fuel on the ground to other aircraft or bladders at a forward location. The aircraft should also be capable of airlifting passengers and cargo while supporting/performing air refueling operations. Future fiscal constraints demand the most efficient use of air refueling assets and dictate that tomorrow's air refueling aircraft provide a more flexible, multi-mission service. An integral, multi-mission capability requirement exists to augment secondary combat mission support needs such as carrying bulk cargo, transporting troops, and supporting emergency aeromedical evacuation. Effective use of excess capacity within the aircraft during forward deployment and redeployment can reduce the use of other airlift assets. To maximize/optimize global commitments, the future tanker requires instantaneous, survivable, communications and a worldwide navigation capability.

Risk/Shortfalls. Continued successful mission accomplishment of this crucial air refueling responsibility is at risk due to increasing demands and decreasing availability as a result of aircraft aging. This risk is

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outlined in the Tanker Requirements Study 2005 (TRS-05) and the KC-135 Economic Service Life (ESL) Study.

ESL Study. Historically, availability has been decreasing due to maintenance and modification requirements of the aging fleet. The ESL Study indicates that the cost of continuing to operate the existing air refueling force is escalating. The average age of the KC-135 aircraft is 41 years. Corrosion, major structural repairs, and an increase in inspections are major drivers in increased cost and time spent in depot, which is leading to a decrease in operational aircraft availability. For example, an unscheduled aircraft inspection involving the stabilizer trim system recently resulted in a short-term, but significant, decrease in aircraft mission capable rates. Other age-related concerns are the increasing costs for engine overhauls and strut repairs, especially for the KC-135E model. There is also concern for anti-corrosion "topcoat" flaking from inside wing fuel tanks. Another issue of significance with the aging KC-135 aircraft is the decreasing availability of spare and replacement part suppliers. The existing KC-10 fleet is much younger, but the first aircraft will pass the 20-year milestone in 2001. As the KC-10 fleet continues to age, increases in maintenance and modification costs, with a decrease in availability can be expected.

Timing and Priority. Air Mobility Strategic Plan 2000 outlines timing and priority for the air refueling mission area. Initially, to meet the current airlift shortfall as identified in the Mobility Requirements Study 2005, Air Mobility Command's priority is to continue with C-17 acquisition and C-5 modernization in the near-term. As the airlift priority is met, AMC [Air Mobility Command] will begin to shift resources to address the next air refueling platform in the mid-to-long-term. Air Mobility Strategic Plan 2000 envisions KC-135 aircraft retirement beginning in 2013 with the concurrent fielding of a replacement air refueling platform. However, since TRS-05 shows an air refueling shortfall now, definition of future air refueling mission needs and examination of opportunities for technology enhancement must begin in the near-term.

Potential Materiel Alternatives. There are several potential materiel alternatives. Currently, there is a commercially contracted effort to provide probe/drogue air refueling. Additionally, several allied nations are planning to purchase/lease modified commercial derivatives. **At this time, there are no Commercial-Off-the-Shelf (COTS), or Government-Off-the-Shelf (GOTS) materiel alternatives readily available to meet the future air refueling mission need.** [Emphasis added.] However, there are several commercial concepts to modify commercial and military aircraft for an air refueling role. These concepts will be evaluated during the future air refueling Analysis of Alternatives (AoA). A service life extension program (SLEP) and new development effort using innovative concepts will also be evaluated during the AoA. Additionally, consideration will be given for the potential of an inter-command/service common replacement aircraft. Of primary concern affecting the designs and selection of an air refueling capability is its ability to reliably carry sufficient fuel for off-load to US military and allied/coalition air forces.

On November 7, 2001, [REDACTED] Air Force Aeronautical Systems Center, provides a draft of the KC-767 Operational Requirements Document, dated November 5, 2001, to [REDACTED] Boeing Military Aircraft, Derivative Airplane Programs.

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On November 8, 2001, Dr. Marvin R. Sambur becomes the Assistant Secretary of the Air Force (Acquisition). In an interview with representatives of the

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Department of Defense Office of the Inspector General, Dr. Sambur stated that, when he first assumed his new position as the Assistant Secretary of the Air Force (Acquisition), he spoke to Mr. Aldridge, Under Secretary of Defense for Acquisition, Technology, and Logistics, about the KC-767 tanker aircraft lease initiative and the DoD 5000 series of directives (the Defense Acquisition System). Dr. Sambur stated that Mr. Aldridge said, "well, this [the KC-767 tanker aircraft lease initiative] is obviously not a 5000 series initiative and we will convene a special OSD [Office of the Secretary of Defense] leasing panel that he would share with Dov Zakheim, who was OSDC [Under Secretary of Defense (Comptroller)]." Further, Dr. Sambur stated that "And at the end of nearly a year period of time in which we looked at almost every aspect of this [the KC-767 tanker lease initiative], the Under Secretary, Pete Aldridge, not the Air Force, made the decision to go forward, that this was something that he thought was appropriate. It was blessed by Dov Zakheim and blessed by OMB [Office of Management and Budget]."

On November 8, 2001, according to Mr. Sams in an e-mail, Major General Essex met with representatives from the Congressional Budget Office to receive an out-brief of the Office's recommended scoring position on the tanker lease program, which was as a capital lease. (Mr. Sams noted that Major General Essex's meeting with the Congressional Budget Office had the same "flavor" as did Boeing's meeting.) Further, Mr. Sams stated that it was clear that the Congressional Budget Office's intent was to question Major General Essex about the details of the tanker lease program. Specifically:

CBO [Congressional Budget Office] had decided that the program could only be scored as a Capital Lease (Lease-to-Own). Most of their questions were intended to have the Air Force provide statements to bolster their position.

- CBO asked if AF [Air Force] will have a requirement for Tankers at the end of the lease. Gen [Major General] Essex responded they would, but the 767 might not necessarily be the Tanker for the future – that the AF will have an Analysis of Alternatives in the FEY [sic] budget to look at Tanker recapitalization.

- CBO asked about the type of modifications necessary to convert a 767 to a tanker. Gen Essex explained that Cargo door & Cargo floor mods [modifications] would convert the a/c [aircraft] to a Cargo aircraft (with commercial value) and the boom, and hose & drogue would have to be added to make it a tanker.

- CBO asked, then was it AF intent to turn these back over to Boeing at the end of the lease. Gen Essex explained [that] the AF wanted flexibility through this pilot program to either end the lease, extend the lease, or purchase the aircraft at some point.

- CBO asked if Boeing has estimated the de-modification costs for these aircraft? [T]ermination liability required? [C]ost to finance? Gen Essex explained these questions could best be answered by Boeing. CBO asked the AF to get Boeing to provide this information.

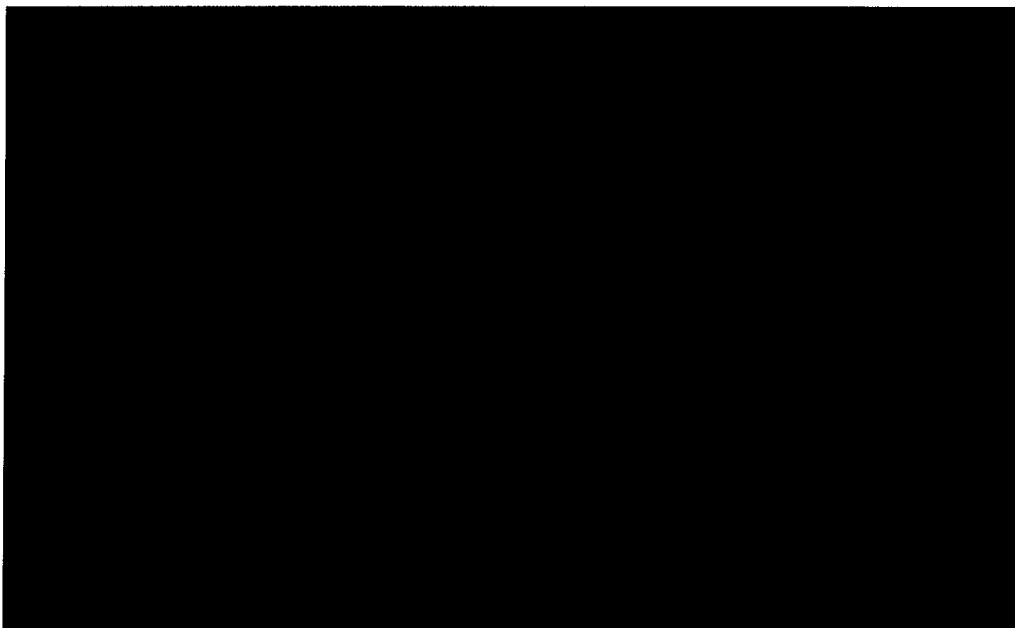
Bottom Line: CBO concluded saying they could not find any other way to make this lease program happen except [by] scoring this as a Capital Lease. They are recommending to the Committees, as they did in our [Boeing's] meeting, that these aircraft could be procured using Advance Appropriations.

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Mr. Sams also stated that, Major General Essex thanked Boeing representatives for the pre-brief before the Air Force's meeting with the Congressional Budget Office. As a result, Major General Essex concluded that the Air Force was better prepared for the meeting.

On Friday, November 9, 2001, Mr. Sams forwards the draft of the KC-767 Operational Requirements Document to Mr. Gower and states that below is a copy of the draft operational requirements document given to Boeing by the Air Force. Further, Mr. Sams states that he is reviewing it now and plans to visit the system program office at Wright-Patterson Air Force Base in Dayton, Ohio, on Tuesday morning.

On Friday, November 23, 2001, in an e-mail to Messrs. Gower and Davis at Boeing, Mr. Sams stated that we have reviewed in detail the draft of the KC-767 Operational Requirements Document and have developed a matrix of where we stand in comparison to what the Air Force has placed in the document. He planned to share the matrix with the Air Force on Monday and establish points of contact to further understand the Air Force's requirements and, where possible, further shape those requirements. Further, Mr. Sams stated that, while there are numerous areas where the global-transport-tanker aircraft does not address the draft Air Force requirements, there are no show-stoppers for Boeing fielding the aircraft the Air Force desires. However, the non-recurring expense to accomplish those requirements would increase the price or lease, or would have to be worked out some other way with the Air Force. Mr. Sams also stated that, "Bob, as you have said, if 100 aircraft are on the table, there is allot [a lot]we can do." Further, Mr. Sams stated that, "While not all inclusive, below is a list of areas where our major efforts will need to be focused to bring requirements in line with capabilities (meet or eliminate) as we are not presently there." Mr. Sams grouped the list of areas into threshold and objective requirements that need to be worked. The following were the threshold requirements needing work:



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On November 26, 2001, in response to Mr. Sams' November 23, 2001, e-mail, Mr. Davis at Boeing asked Mr. Sams:

With [the] draft [of the operational requirements document] on the street, what can we expect from the potential competitors? Where do we stand with a sole source J&A [justification and approval] within the USAF [Air Force] & SAF/AQ [Assistant Secretary of the Air Force (Acquisition)]? Is anyone talking about a spiral/incremental development effort to meet the thresh-hold [threshold] reqmts [requirements]? Do we have a strategy to try & work this with Air Staff, AQ [Assistant Secretary of the Air Force (Acquisition)], AFROC [Air Force Requirements Oversight Council], JROC [Joint Requirements Oversight Council] etc.? We really do not want a reqmt [requirement] established without consideration of the acquisition strategy, do we?

**December 2001.** On December 3, Mr. Rudy F. De Leon at Boeing sent an e-mail to Mr. Michael M. Sears, Mr. Gerald E. Daniels, Mr. James F. Palmer, Mr. Andrew K. Ellis, Mr. Emory W. Baragar, Mr. Philip E. Ruter, and Mr. Jerry A. Fergeson with a cc: to Mr. Philip M. Condit and Mr. Harry C. Stonecipher. In the e-mail, Mr. De Leon attached a report from Mr. Andrew K. Ellis, Vice President, Military Aircraft and Missile Systems, Boeing on his conversations with Ms. Druyun and stated that the Senate Appropriations Committee will continue to work the issue with the Congressional Budget Office; however, a Senator has told another Senator that he is prepared to offer the original language, the "pilot lease" for 100 767 aircraft. In Mr. Ellis' report, he stated that:

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[D]arleen [Druyun] called me relative to the CBO [Congressional Budget Office] tanker language and expressed her view that the CBO construct was not viable. [H]er comments/observations included:

1. [T]his is just OMB A-11, there is no pilot program authorized.
2. [B]ased on her discussions with [B]oeing, and on her discussions in the financial world, the one year's TL [tanker lease] payment would pose problems for [B]oeing.
3. [A]s she reads it, the chapter 15/title 31 USC language would require usaf [U.S. Air Force] to use procurement funds for both the lease payments and for the modifications.
4. usaf couldn't possibly de-mod the tanker to turn it in as the a/c [aircraft] was delivered – would likely preclude making many necessary mods on the front end.

[B]ottom line on CBO construct was extremely negative.

[D]arleen has subsequently spoken with SAC [Senate Appropriations Committee] staff and just called back to report:

1. SAC may be able to delete requirement to de-mode [sic] a/c before returning
2. SAC not likely able to delete requirement to remove the 90% fair market value provision (more fundamentally, she urged SAC to get the usaf out from under OMB A-11, which SAC staff didn't think was likely at this point)
3. [S]he indicated to SAC staff that she thought the 1 year TL payment issue would be a big problem for [B]oeing (you may hear back from SAC on this one)
4. [W]ithout clarifying, indicated she believed [A]ir [F]orce might also end up with a "\$400-\$500M development bill" before even getting to issue of having to use procurement funding for lease/mods.

[B]ottom line from our second conversation – she is frustrated, knows that SAC/Boeing are trying to work the issue, and reiterated her belief that the CBO construct was a bad deal for the usaf.

On December 5, 2001, Ms. Druyun sent an e-mail to Dr. Roche; General John P. Jumper, Air Force Chief of Staff; General Robert H. Foglesong, Air Force Vice Chief of Staff; and Dr. Sambur with a cc: to Mr. Willard H. Mitchell, Deputy Under Secretary of the Air Force (International Affairs). In the e-mail, Ms. Druyun stated that:

[A Representative] and [congressional staff] faxed me the new language on leasing last night that will go to conference. They have fixed some of the issues but as written it is still not executable. [The Representative] called me again this AM to get my sense of its executability and this is what I said to him:

-the language requires the AF [Air Force] [to] lease green 767 aircraft but procure thru separate Auth/Approp [Authorization/Appropriation] the mod to make it a tanker. This means the aircraft cost is [REDACTED] which I then do my fair market value 90% assessment. For a ten year lease I bust the 90% figure...its approx 116% under OMB [Office of Management and Budget] Circular A-11.

-I asked if they could describe the lease for a "commercial aircraft tanker" vs [versus] green 767 a/c [aircraft]. My reasoning for this is that I

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believe Boeing can market a commercial 767 tanker which hopefully can include a boom and comm [communications] equipment for US and FMS [Foreign Military Sales] sales. This would not require the USAF [U.S. Air Force] to come up with [REDACTED] a copy for each a/c [aircraft] which I told him would probably be impossible to do with our current top line. Writing a lease for a commercial tanker largely solves this problem. Also it puts the value I would do an OMB Circular A-11 calculation on close to [REDACTED] and if I do it on two 5 year leases I believe I can come within the 90% rule since each is a stand along calculation. SAF/IA [Air Force Deputy Under Secretary (International Affairs)] is looking at whether Boeing can have as a description in their commercial tanker some variation or options such as radios and have two commercial tanker offerings: US and FMS and non FMS subject to ITAR [International Traffic in Arms Regulations]. I should hear back on that later today.

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-[A Representative] asked that I call [a congressional staffer] and discuss the changes that I would want to see happen in Conference. I am awaiting his call sometime today. [The Representative] and [the congressional staffer] told me that the prohibition to eventually buying these aircraft would be changed in the next couple of years. Apparently they have some backroom agreement on this. The lease would then be allowed to be scored annually per discussions they have had with CBO [Congressional Budget Office] and OMB if I can meet the A-11 requirements.

I will keep you posted. Boeing by next week can have a commercial tanker ready for marketing with a boom if I get a green light from IA [Air Force Deputy Under Secretary (International Affairs)] on my questions.

On December 5, 2001, in response to Ms. Druyun's December 5, 2001, e-mail, Dr. Sambur sent an e-mail to Dr. Roche, Ms. Druyun, General Jumper, and General Foglesong with a cc: to Mr. Willard H. Mitchell, Deputy Under Secretary of the Air Force (International Affairs) in which he stated that, "Since this email, Darleen [Druyun] has done an excellent job on the Hill to modify the language so that it [is] approaching the doable range."

On December 12, 2001, Mr. Robert W. Gordon sent an e-mail to Mr. Ronald J. Glover and Mr. Wayne W. Hill with a cc: to Mr. James F. Palmer in which he stated that despite our last minute concerns over the accuracy of our pricing model and the resultant [REDACTED] price, the meeting with the Air Force went well. We need to meet to derive a price more reflective of the transaction. Further, Mr. Gordon stated that the Air Force has its back against the wall. They are clearly disappointed with congressional language and have no idea where they will find the money for this program. Even at the \$206 million price, they have a problem and, at \$231 million, it is over. Boeing's mission is not to solve the U.S. Government's money problem, but to make sure we are offering a well substantiated deal.

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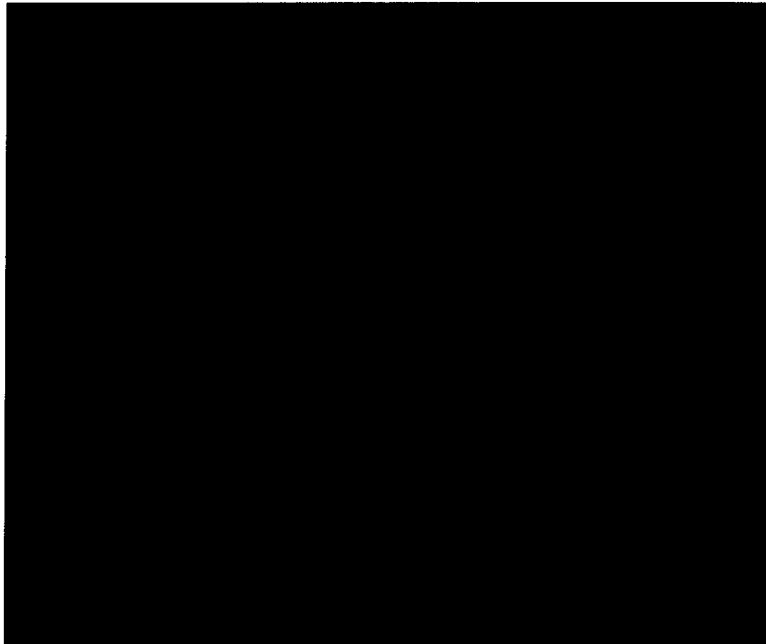
On December 12, 2001, an Office of Management and Budget official sent a letter to a Representative in which he stated that "Thank you for your letter to [a White House official] requesting that the Administration's economic stimulus package include funding for the purchase or lease of Boeing 767 aircraft as the Air Force's next generation tanker. [The White House official] has asked me to respond on his behalf." Further, the Office of Management and Budget official discussed a

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Representative's concern about the economic well-being of the Boeing Company and stated that:

In your letter you ask that the economic stimulus package include money for the lease or purchase of new B-767 aircraft as tankers for the Air Force. We have grave reservations about leasing these aircraft. Our analysis shows that over the long-term a lease-purchase program would be much more expensive than direct purchase of the same aircraft. With regard to the possibility of procuring the aircraft, we have now begun the programmatic and budget reviews necessary for the preparation for the FY 2003 Budget submission. In this process programs are evaluated in terms of their cost and potential military benefit. Please be assured that we will consider your request carefully as we prepare the FY 2003 Budget request.

On December 12, 2001, [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) sent an e-mail to Dr. Sambur; Ms. Druyun; Lieutenant General Stephen Plummer, Air Force Principal Deputy (Acquisition); and Major General Essex, Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) with a cc: to [REDACTED] Chief, Mobility Division, Office of the Air Force Director of Global Reach Programs; and [REDACTED] Office of the Air Force Director of Global Reach Programs. In the e-mail, [REDACTED] stated that: b(6) - OSD Redaction



On December 13, 2001, Mr. Gerald E. Daniels at Boeing sent an e-mail to Mr. Harry C. Stonecipher, Mr. Rudy F. De Leon, Mr. James F. Palmer,

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\*Removed for reason stated in the initial asterisked footnote.

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Mr. Michael M. Sears with a cc: to Mr. Randall R. Simons, Mr. Bob Gower, and Mr. Andrew K. Ellis in which he stated that:

Continued dialogue today with Darleen [Drayun] and her new boss, Marv [Marvin] Sambur. Randy Simons and Bob Gower [Boeing] will meet tomorrow morning with Darleen [Drayun] and her financial analysts to look at a family of solutions that meet these criteria: affordable to the Air Force, acceptable/realistic interest rates, acceptable residual value at the end of the lease, and reasonable lease term. In other words, this may come down to fewer aircraft and/or shorter lease periods if we have to fit it to the Air Force O&M [operation and maintenance] budget and meet all the laws that govern it. Air Force wants to do this deal. May end up with 15-17 aircraft for 7 years to meet all the constraints, but we're going to give it our best.

On December 17, 2001, under Dr. Sambur's e-mail account, Major General Essex appears to have sent an e-mail to Dr. Sambur; Ms. Drayun; Lieutenant General Stephen Plummer, Air Force Principal Deputy (Acquisition); Mr. Blaise J. Durante, Air Force Deputy Assistant Secretary (Management Policy and Program Integration); [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] Office of the Air Force Director of Global Reach Programs; [REDACTED] Office of the Air Force Director of Global Reach Programs; [REDACTED] Chief, Mobility Division, Office of the Air Force Director of Global Reach Programs; and himself. The e-mail stated that:

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Dr. Sambur  
Summary of actions taken:

Mrs. Drayun, Boeing, and Air Staff reps met end of last week to develop and examine set of options which meet the requirements for an operating lease. Over weekend further refined these options and began building briefing which lays out an Integrated Master Schedule combining all Boeing and Government actions required to obtain congressional approval and initiate the program. We will brief this to Mrs. Drayun Wednesday at 0700, along with the matrix of options which meet the operating lease gates. The variables in the matrix are: purchase price, lease term, interest rate, residual value, and lease payment. All the options presented will meet the OMB [Office of Management and Budget] gates.

I recommend that we brief Dr. Roche on Wednesday after this meeting, at which time we can also show him what he just asked for...how we got the old numbers and what are 'the real numbers.' I think it is important to remember that the old numbers were generated on a 'pilot program' which was really a capital lease by another name. That is off the table and we need to distance ourselves from them if we can.

Mrs. Drayun and Gen [General] Plummer,  
This is what I sent to Dr. Sambur, at his request. He is going to call or e-mail SECAF [Secretary of the Air Force] about 767 numbers problem. As you can see, I am recommending we try to get SECAF to wait til [I] Wednesday to discuss the lease numbers. The previous lease numbers were for a pilot program which is completely different from what we're working toward now.

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On December 18, 2001, Mr. Jaymie Durnan, The Special Assistant to the Secretary and the Deputy Secretary of Defense sent an e-mail to Dr. Roche with a cc: to Mr. Aldridge; Brigadier General Batiste, Senior Military Assistant to the Deputy Secretary of Defense; and [REDACTED]. In the e-mail, Mr. Durnan stated that:

Jim,

DSD [Deputy Secretary of Defense] asks that you provide him with a briefing paper on the 767 leasing issues. He would like the paper to include how the decision was made, why the decision was made to lease versus buy, the costs involved, the scoring issues involved, the advantages and disadvantages of leasing versus buying, were there alternatives to the 767 and what were they, and other relevant issues you deem appropriate. It would be helpful to give him a scorecard of why [a Senator], et al. are so opposed to it.

He asks if you can provide the paper by cob [close-of-business] today and, if necessary, would like to schedule a meeting with Pete [Aldridge] Dov [Zakheim] and you tomorrow to discuss the issue.

**January 2002.** On January 8, Brigadier General (Select) Ted F. Bowlds, Program Executive Officer for Strategic Programs, Office of the Assistant Secretary of the Air Force (Acquisition) sent an e-mail to Dr. Sambur, Ms. Druyun, and Lieutenant General Stephen Plummer with a cc: to Major General Essex; [REDACTED] Office of Air Force Strategic Programs; [REDACTED] and [REDACTED]. In the e-mail, he stated that:

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Sirs and Mrs. Druyun;

A follow-up to our discussion at the staff meeting this morning. The top-talent in AQQ [Office of the Director of Global Reach Programs] is way ahead of me and have a draft version of the ORD [operational requirements document] in hand. There has been some preliminary work done on the effort required to go from the 'commercial' version of the tanker to the requirements in the ORD (I'm calling this a Delta Document for now). **This may be somewhat biased since it's a Boeing only look at this point.** [Emphasis added.]

It seems the logical next step based on our discussion is once the initial SPO [system program office] cadre is identified, to have them complete the effort on this Delta Document and eliminate any biases. Initial fact finding by another name.

My suggestion would be to have this cadre plus representatives from AMC [Air Mobility Command] come here to DC [District of Columbia] and work directly with Boeing to develop this document. Once Gen [General] Lyles [Commander, Air Force Materiel Command] identifies the people and the ORD is formally inside the beltway, this effort can start.

I talked with AMC, the ORD started it's two-letter coordination today.

On January 10, 2002, in Section 8159 of the Department of Defense Appropriations Act for FY 2002, Congress authorized the Air Force to make payments on a multiyear pilot program for leasing not more than 100 general purpose Boeing 767 aircraft for not more than 10 years per aircraft, inclusive of any options to renew or extend the initial lease term, and for not more than

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90 percent of the fair market value of the aircraft obtained under the lease.  
Specifically:

SEC. 8159. MULTIYEAR AIRCRAFT LEASE PILOT PROGRAM

(a) The Secretary of the Air Force may, from funds provided in this Act or any future appropriations Act, establish and make payments on a multiyear pilot program for leasing general purpose Boeing 767 aircraft and Boeing 737 aircraft in commercial configuration.

(b) Sections 2401 and 2401a of title 10, United States Code, shall not apply to any aircraft lease authorized by this section.

(c) Under the aircraft lease Pilot Program authorized by this section:

(1) The Secretary may include terms and conditions in lease agreements that are customary in aircraft leases by a non-Government lessor to a non-Government lessee, but only those that are not inconsistent with any of the terms and conditions mandated herein.

(2) The term of any individual lease agreement into which the Secretary enters under this section shall not exceed 10 years, inclusive of any options to renew or extend the initial lease term.

(3) The Secretary may provide for special payments in a lessor if the Secretary terminates or cancels the lease prior to the expiration of its term. Such special payments shall not exceed an amount equal to the value of 1 year's lease payment under the lease.

(4) Subchapter IV of chapter 15 of title 31, United States Code shall apply to the lease transactions under this section, except that the limitation in section 1553(b)(2) shall not apply.

(5) The Secretary shall lease aircraft under terms and conditions consistent with this section and consistent with the criteria for an operating lease as defined in OMB Circular A-11, as in effect at the time of the lease.

(6) Lease arrangements authorized by this section may not commence until:

(A) The Secretary submits a report to the congressional defense committees outlining the plans for implementing the Pilot Program. The report shall describe the terms and conditions of proposed contracts and describe the expected savings, if any, comparing total costs, including operation, support, acquisition, and financing, of the lease, including modification, with the outright purchase of the aircraft as modified.

(B) A period of not less than 30 calendar days has elapsed after submitting the report.

(7) Not later than 1 year after the date on which the first aircraft is delivered under this Pilot Program, and yearly thereafter on the anniversary of the first delivery, the Secretary shall submit a report to the congressional defense committees describing the status of the Pilot Program. The Report will be based on at least 6 months of experience in operating the Pilot Program.

(8) The Air Force shall accept delivery of the aircraft in a general purpose configuration.

(9) At the conclusion of the lease term, each aircraft obtained under that lease may be returned to the contractor in the same configuration in which the aircraft was delivered.

(10) The present value of the total payments over the duration of each lease entered into under this authority shall not exceed 90 percent of the fair market value of the aircraft obtained under that lease.

(d) No lease entered into under this authority shall provide for—

(1) the modification of the general purpose aircraft from the commercial configuration, unless and until separate authority for such conversion is enacted and only to the extent budget authority is provided in advance in appropriations Acts for that purpose; or

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(2) the purchase of the aircraft by, or the transfer of ownership to, the Air Force.

(e) The authority granted to the Secretary of the Air Force by this section is separate from and in addition to, and shall not be construed to impair or otherwise affect, the authority of the Secretary to procure transportation or enter into leases under a provision of law other than this section.

(f) The authority provided under this section may be used to lease not more than a total of 100 Boeing 767 aircraft and 4 Boeing 737 aircraft for the purposes specified herein.

**February 2002.** From February 5 through 8, operational requirements document meeting in Airlifter Hall at Air Mobility Command. Boeing had already received draft operational requirements document and was discussing how to meet Air Force requirements with a matrix.

On February 14, 2002, Ms. Druyun sent an e-mail to Dr. Roche, General Jumper, Dr. Sambur, and Major General Essex in which she stated that:

Based on your hearing on Tuesday I am developing a draft CFI [contractor-furnished information] that would go to both Boeing and Airbus that lays out our requirements and asks that each contractor respond using a matrix we are developing that will identify and substantiate their ability to meet the requirements and begin delivery in FY05. The matrix will establish clear definitions to color code and identify the level of risk to satisfy the requirement. Data will be required to be submitted to substantiate any item that is color coded green or low risk. I plan showing this to you on Tuesday for your input and our plan to flush out the reality of a competition. In addition I have some data from the recent competition conducted by the Italians. We are also researching the requirements of the "Buy America."

On February 14, 2002, Dr. Roche responded to Ms. Druyun's e-mail and stated that:

Darleen [Druyun], terrific. In the case of Airbus, we probably should note 'if you desire to do so,' or to ask them to request a CFI [contractor-furnished information]. Right? Or, unnecessary? Thanks much. We will need to do this as the prelude to a 'buy' if the lease can't easily be explained to [a Senator]. We will also have to vet the history of compliance with the FPCA. Finally, Speedy has a idea that is attractive: have the Germans and French agree to buy C-17's, and we give Airbus the chance to compete on blocks of tankers. Other than raising the hackles of certain Members, this could avoid the dependence on a single class of aircraft, and will avoid monopoly. Paul W [Wolfowitz] wants me to set up an Aldridge/Feith/Roche/DSD [Under Secretary of Defense for Acquisition, Technology, and Logistics/Under Secretary of Defense for Policy/Secretary of the Air Force/Deputy Secretary of Defense] discussion. I'd appreciate your and Marv's [Dr. Sambur] thoughts on Tuesday.

On February 14, 2002, Ms. Druyun responded to Dr. Roche's e-mail with an e-mail to Dr. Sambur; Mr. John P. Janecek, Air Force Deputy General Counsel (Acquisition); Ms. Mary L. Walker, Air Force General Counsel; and Major General Essex. In her response, Ms. Druyun stated that:



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You are right on about doing this as a prelude to a buy. I am hopeful we can smoke out the data we need to be able to look anyone in the eye and tell them why we are or are not conducting a competition. I am working with Jon Janecek...Speedy's idea is great or We will get on your calendar.

On February 14, 2002, concerning Dr. Roche's response to Ms. Druyun's e-mail, Major General Essex sent an e-mail to Brigadier General Bowlds in which he stated that:

Ted  
I think we should keep this close hold for now and just tell our AOs [action officers] the parts they need to know. The idea of a C-17 deal is appealing to some and appalling to others.  
Bill

On February 20, 2002, Brigadier General Darryl A. Scott, Deputy Assistant Secretary (Contracting), Office of the Assistant Secretary of the Air Force (Acquisition) signed out a request for information to The Boeing Company and Airbus North America, Inc. (European Aeronautic Defence and Space Company, Incorporated) to begin the Air Force's market research and assess market capabilities in the area of commercial aerial tankers.

On February 20, 2002, Mr. Bob Gower at Boeing sent an e-mail to Mr. Rudy F. De Leon and Mr. Gerald E. Daniels with a cc: to Mr. Andrew K. Ellis; Mr. Thomas A. Owens; Mr. E. David Spong; Mr. John B. Sams, Jr.; Mr. Randall R. Simons; and Mr. James F. Palmer at Boeing. In the e-mail, Mr. Gower stated that:

I assume you both know that the USAF [U.S. Air Force] sent an RFI [request for information] to Jerry [Gerald E. Daniels, President and Chief Executive Office, Military Aircraft and Missiles, Boeing] today for the 767 Tanker. It was also sent to EADS [European Aeronautic Defence and Space Company]. They requested a 2 week turn around with 100 pages maximum. Their request is 26 pages long. It basically requests an assessment to the ORD [operational requirements document]. We have already begun to prepare a response. The first step we are doing is developing some clarifying questions. The first question will be to find out if all questions will be shared.

The criteria as stated is not how we would like to see it. Green is defined as an item that is integrated on the aircraft already. This will make all of the tanker unique items yellow at best. They do not ask for past experience either.

On the positive side they do request the first tanker at the end of CY05 which does favor us. They do ask for the lease structure but do not ask for pricing data.

We will work to clarify the response criteria in order that we can articulate our experience and our abilities.

With this development I can argue either side of continuing with the site announcement next week. I suggest we continue if the members are willing. I would prefer to become more proactive and develop the political momentum and public pressure to keep this sold. I will obviously default to your judgment.

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On February 26, 2002, [REDACTED] Aeronautical Systems Center sent an e-mail to [REDACTED], Mobility Division, Air Force Director of Global Reach Programs; [REDACTED], Air Force Strategic Programs, Office of the Assistant Secretary of the Air Force (Acquisition); and [REDACTED] Air Mobility Command with a cc: to [REDACTED] and [REDACTED] at the Aeronautical Systems Center. In his e-mail, [REDACTED] stated that:

Given the competitive path we are now marching down, [I] request [and] direct [that] you terminate all contacts with Boeing, to include planned facility visits, until the competitive vs sole source decision is reached. There is an RFI [request for information] briefing to Mrs. D [Druyun] on 18 March after which I am sure a decision will be made as to which direction we are marching. As the attached states, contact ASC/GRC [Aeronautical Systems Center] to discuss the issue or to seek further guidance. Please pass this on to any other organizations/team members within your purvue [purview].

**March 2002.** On March 6, Air Force receives request for information responses from Boeing and Airbus.

On March 21, 2002, [REDACTED] Aerial Refueling Systems, Naval Air Systems Command, sent an e-mail to [REDACTED] Air Mobility Command with a cc: to [REDACTED] and [REDACTED] in which he stated:

I've been in touch with [REDACTED] from RADM [Rear Admiral] Chanik's office (N780) following our phone conversation where you stated to me that the Navy's position with regard to the replacement tanker aircraft for the KC-135 was to have redundancy via a single centerline hose reel and a boom vice the capability to refuel two receiver aircraft simultaneously which also satisfies the redundancy issue. The enclosed table, which according to [REDACTED] was sent to your office in response to N780's first look at the ORD [operational requirements document], clearly states that 'The aircraft must have the capability to refuel two receivers simultaneously (THRESHOLD).' To date, the ORD still does not reflect our requirements.

I am also in the process of gathering qualitative data supporting our position from carrier airwings returning from Afghanistan and Operation Southern Watch as well as our clearing house for airwing lessons learned, NSAWC [Naval Strike Air Warfare Center].

Please call me if you would like to discuss this further.

On March 21, 2002, [REDACTED] Chief, Mobility Division, Office of the Air Force Director of Global Reach Programs sent an e-mail to Major General Essex, Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) with a cc: to [REDACTED] Office of the Air Force Director of Global Reach Programs; Lieutenant [REDACTED] Office of the Air Force Director of Global Reach Programs; [REDACTED] Office of the Air Force Director of Global Reach Programs; [REDACTED] Office of the Air Force Director of Global Reach Programs; [REDACTED] Office of the Air Force Director of Global Reach Programs; and [REDACTED] Office of the Air Force Director of Global Reach Programs. In his e-mail, [REDACTED] stated:

b(6) - OSD Redaction

Sir,

At the AFROC [Air Force Requirements Oversight Council] I attended today, all of the mobility programs were approved. The AFROC approved the ORD [operational requirements document] for the Commercial Derivative Air Refueling Aircraft, as well as the VIPSAM Medium Lift Aircraft Replacement ORD (AMC [Air Mobility Command]), and Global Airlift and Mission Support ORD (ANG [Air National Guard]).

Maj [Major] Gen [General] Leaf was called away just prior to start of the AFROC, so [REDACTED] chaired the meeting, but he was obviously up to speed on all the issues. Regarding the Navy's concern about having the capability for simultaneous drogue refueling, a Navy rep was at the AFROC, and he nodded in agreement when AMC said they had resolved the issue with the Navy, and that the capability would not be included in the first spiral.

The AETC [Air Education & Training Command] representative presented a couple briefing slides on their concerns about the tanker program's training. AETC was not concerned about aircrew training, but they didn't want all the maintenance training to be done by a contractor. They were concerned, for example, about airmen going directly from BMT [basic military training] to contractor-conducted training and how they would miss the additional military training (or 'bluing') they would normally get at Sheppard. After discussion, the AFROC consensus and decision was to approve the ORD as written-the final solution didn't need to be defined at this point, the ORD says, 'TSRA/BCA [Training System Requirements Analysis/Business Case Analysis] will be conducted to determine the most effective training system (contractor, organic, mix).'

Someone from the AFROC staff mentioned that recent AFMC e-mails raised some concerns about how the tanker ORD was written. AMC and the AFROC chair noted some room for improvement in how future ORDs are written, as well as the unique nature of the schedule/background surrounding this ORD. No further discussion or action ensued.

AMC is still working numerous minor comments from the Joint Staff 0-6 level review, but it's cleared by the Air Force to press on towards a JROC [Joint Requirements Oversight Council] in Jun[e] 02.

On March 25, 2002, in response to [REDACTED] e-mail, Major General Bill Essex sent an e-mail to [REDACTED] with a cc: to [REDACTED]

[REDACTED] in which he stated:

[REDACTED] I need to know specifically, who from AMC [Air Mobility Command] talked to whom in the Navy and what was said and agreed upon.

On March 25, 2002, in response to Major General Bill Essex's e-mail, [REDACTED] sent an e-mail to [REDACTED] Chief, Systems Requirements Division, Directorate of Plans and Programs, Air Mobility Command with a cc: to [REDACTED] Air Mobility Command; [REDACTED] and [REDACTED]

[REDACTED] in which he stated:

b(6) - OSD Redaction

My comment in the e-mail below about AMC [Air Mobility Command] reaching an agreement with the Navy, was based on remarks at the AFROC [Air Force Requirements Oversight Council] by you and/or [redacted] (at least as I recalled and understood what you said). Can you provide any more specifics?

On March 25, 2002, in response to [redacted] e-mail, [redacted] sent an e-mail to [redacted] with a cc: to [redacted] Air Mobility Command; [redacted] Air Mobility Command; [redacted] Air Mobility Command; and [redacted] in which he stated:

Here's some specifics regarding our resolution of the Navy's critical comment on simultaneous air refueling capability for the commercial derivative air refueling aircraft and Gen [Major General] Essex' query on 'who from AMC [Air Mobility Command] talked to whom in the Navy and what was said and agreed upon.'

**Background:** The Navy, OPNAV N780, provided the following critical comment to the Commercial Derivative Air Refueling Aircraft ORD [operational requirements document]: Reference para 4.1.2.1.2, **Critical:** Change sentence to read: 'The aircraft must have the capability to refuel two receivers simultaneously (THRESHOLD).'

[redacted] N780G1, was identified in a letter signed by Rear Admiral Chanik as the POC [point of contract] for the Navy comments.

AMC [Air Mobility Command] resolution was: **Accepted:** Para 4.1.2.1.2 changed to include, 'The capability to refuel two receivers simultaneously is required (THRESHOLD). An analysis will be conducted to determine the proper number of aircraft required to have simultaneous refueling capability. For aircraft not modified with simultaneous refueling capability, a second drogue system for redundancy is desired (OBJECTIVE).'

**'Who from AMC talked to whom in the Navy and what was said and agreed upon?'** [redacted] and [redacted]

[redacted] spoke to [redacted] on 12 Mar 02 and advised him of the exact changes (adding simultaneous air refueling as a THRESHOLD but not a KPP [key performance parameter]) that had been made to the ORD. They pointed out that any simultaneous refueling capability our new tanker would have adds to the existing capability in the KC-135/KC-10 fleet, as the KC-135Es that would be replaced by new aircraft do not have MPRS [multi-point refueling system]. We also pointed out that simultaneous refueling capability would be a spiral development, after an analysis was accomplished (IAW [in accordance with] the new ORD verbiage) to determine the proper number of aircraft required to have simultaneous refueling capability. Verbal coordination was provided by [redacted] on satisfactory resolution of the comment. With regard to this issue, we have not received any additional comments on the joint 0-6 review and do not expect any.

On March 26, 2002, [redacted] forwarded [redacted] e-mail response on Major General Bill Essex with a cc: to [redacted]

b(6) - OSD Redaction

Global Mobility Division, Directorate of Operational Requirements, Office of the

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Deputy Chief of Staff for Air and Space Operations; and [REDACTED]  
Director, Global Mobility Division, Directorate of Operational Requirements,  
Office of the Deputy Chief of Staff for Air and Space Operations. In his e-mail,  
[REDACTED] stated:

Sir...attached are specifics of AMC [Air Mobility Command] coord  
[coordination] with the Navy on simultaneous A/R [air refueling]. The  
current version of the ORD [operational requirements document] shows  
it as a threshold in spiral 2. And so far, there are no further comments  
from the Joint Staff.

On March 26, 2002, [REDACTED], Air Mobility Command  
sent an e-mail to [REDACTED] Aerial Refueling Systems, Naval  
Air Systems Command in response to his e-mail of March 21, 2002. In his  
e-mail, [REDACTED] stated:

[REDACTED]

The ORD [operational requirements document] I sent you last week  
might have incorrectly (typo) shown 'The capability to refuel two  
receivers simultaneously is required (THRESHOLD).' as spiral 1 instead  
of spiral 2. (see page 71 of ORD). I know I talked to you on the phone  
and mentioned this would be spiral 2 and we would do an analysis to  
determine the exact number of tankers needed to have this capability.  
Also, want to restate that any wing pods we would put on the CDARA  
[Commercial Derivative Air Refueling Aircraft] would be above and  
beyond what our current capability is as we are replacing the KC-135E  
fleet which does not have MPRS [multi-point refueling system].

On March 27, 2002, Brigadier General Bowlds requested \$100 thousand for  
KC-767 System Program Office travel. Ms. Druyun and Major General Essex  
suggest using a portion of the funds for the tanker analysis of alternatives.  
Mr. Blaise J. Durante, Air Force Deputy Assistant Secretary (Management Policy  
and Program Integration) approved the use of the tanker analysis of alternatives  
funds for the KC-767 System Program Office travel as long as it tied to KC-767  
work.

On March 28, 2002, in response to [REDACTED] e-mail,  
[REDACTED] sent an e-mail to [REDACTED]  
in which he stated:

We're moving in the wrong direction again [REDACTED]!! Navair's position is  
that it needs to be spiral 1 like it says in the ORD [operational  
requirements document] you sent me dated 18 March. I've got a call in  
with [REDACTED] to talk this over again. I think his  
position will be the same as ours. I'm going to Kirtland next week for  
the CDARA [Commercial Derivative Air Refueling Aircraft] core team  
meeting. You gonna [sic] be there?

On March 28, 2002, in response to [REDACTED] e-mail,  
[REDACTED] sent an e-mail to [REDACTED]  
with a cc: to [REDACTED] Air Mobility Command; [REDACTED] Air  
Mobility Command; [REDACTED] Office of the Air Force  
Director of Global Reach Programs; and [REDACTED]  
Global Mobility Division, Directorate of Operational Requirements, Office of the

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Deputy Chief of Staff for Air and Space Operations. In his e-mail, [REDACTED] stated:

[REDACTED]  
We'll have to work this out. The information we told [REDACTED] was we will do a study to determine the number of acft [aircraft] needed with wing pods and modify those acft [aircraft] but don't need to do all 100. So there's no reason to mod the first acft [aircraft] off the line. We're checking on the Kirtland meeting. It seems to be more testing focused and our guys from AMC/TE [Air Mobility Command/Test and Evaluation] will be there.

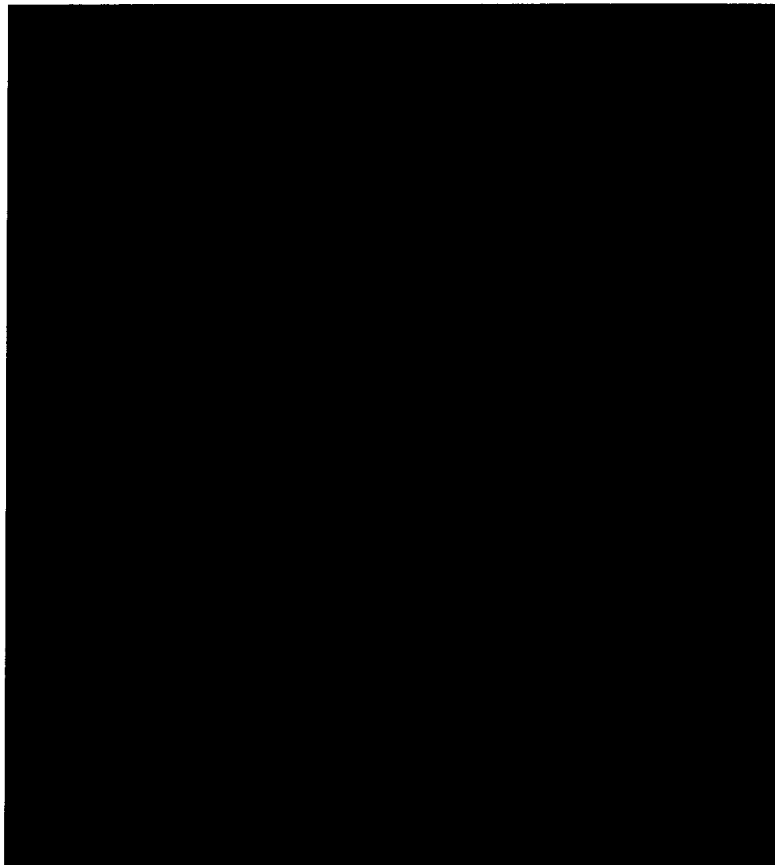
On March 28, 2002, [REDACTED] forwarded [REDACTED] e-mail to [REDACTED] with a cc: to [REDACTED] and [REDACTED] and stated:

Sir,

OK -maybe the Navy isn't happy with the pod solution. Email below from [REDACTED] says the pods must be Spiral '1,' not Spiral '2.'

b(6)

On March 28, 2002, Dr. Sambur sent a letter to Mr. Aldridge in which he stated:



b(5)

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On March 29, 2002, Mr. Andrew K. Ellis at Boeing sent an e-mail to Mr. Rudy F. De Leon with a cc: to Mr. Gerald E. Daniels, Mr. Bob Gower, Mr. Emory Baragar, Mr. Douglas Kennett, Mr. Virnell Bruce, Mr. Phillip Ruter, Mr. Jerry Ferguson, and Mr. Thomas Owens at Boeing. In the e-mail, Mr. Ellis stated that:

[R]udy:

[J]ust spoke with [B]ill [B]odie [Special Assistant to the Secretary of the Air Force] in [S]ec. [R]oche's office.

[G]annett piece:

[I] assured him we were watching it and that [I] would get back to him if we saw it getting broader circulation. [H]e also indicated he thought both [A]ir [F]orce and [B]oeing might have to directly respond if the piece gets printed in USA Today, etc.

[H]e strongly urged us to have our friends on [H]ill, think tanks, etc get more visible/vocal in countering the kinds of arguments in the [G]annett piece this morning. [T]old him it was being worked and we were prepared to sustain a more visible, longer term, pro-tanker campaign (it is clearly what he wants, especially if it helps drown out [a Senator] and insulate/support the [S]ecretary [Dr. Roche].

On [A]ir [F]orce RFI [request for information] message:

[A]ir [F]orce is taking low key approach to [C]ongress – calls are being made today, [A]ir [F]orce is providing tanker related RTQ's/Q&A's [response to questions/questions and answers] to interested members (we will track down a copy). [A]t this point, [A]ir [F]orce does not envision a letter to the [C]ongress.

[M]essages from [A]ir [F]orce are that RFI results clearly demonstrated that only [B]oeing can meet reqt's [requirements] of the [FY]02 approps [appropriations] language, that EADS [European Aeronautic Defence and Space Company] lacks the tanker experience and appropriate refueling technologies.

[A]lso said A330 spotting factor a significant issue – 81% larger than [KC]-135 without commensurate additional fuel capacity. [W]ould require lots more facilitization, would cause significant deployability problems based on ramp space, hangars, etc.

[F]inally, said that net present value analysis favored [B]oeing.

[I]n discussing how to respond to [M]onday's debrief, he agreed that [B]oeing should be somewhat low-key – i.e., encouraged by results, underscores our experience and financial approach and we look forward to sitting down to work out a deal that is good for security and taxpayers.

[W]e agreed that we expect EADS to go negative.

On March 29, 2002, [REDACTED] Office of the Secretary of the Air Force sent an e-mail to Dr. Sambur and Ms. Druyun with a cc: to Major General Duncan J. McNabb, Office of the Air Force Deputy Chief of Staff for Plans and Programs; [REDACTED] Office of the Air Force Deputy Chief of Staff for Air and Space Operations; [REDACTED] Office of the

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Assistant Secretary of the Air Force (Acquisition); [REDACTED] Office of the Air Force Vice Chief of Staff; [REDACTED] Office of the Air Force Vice Chief of Staff; Mr. William C. Bodie, Special Assistant to the Secretary of the Air Force; Lieutenant General Stephen Plummer, Air Force Principal Deputy (Acquisition); Lieutenant General Charles Wald, Office of the Air Force Deputy Chief of Staff for Air and Space Operations; Lieutenant General Joseph H. Wehrle, Jr., Air Force Deputy Chief of Staff for Plans and Programs; Major General Dan Leaf, Director, Air Force Directorate of Operational Requirements; [REDACTED] contractor; [REDACTED] Confidential Assistant to the Secretary of the Air Force; [REDACTED] Office of the Assistant Secretary of the Air Force (Acquisition); and [REDACTED] Office of the Assistant Secretary of the Air Force (Acquisition). In the e-mail, [REDACTED] stated that:

Sir/Ma'am  
SECAF [Secretary of the Air Force] just had a short discussion with DSD [Deputy Secretary of Defense] on our tanker deliberations. As follow-up to that discussion we need to get to DSD a short briefing to address the following:

- Why do we need tanker modernization now
- Why should we consider a lease

While at least the first is a cross-cutting issue SECAF wants AQ [Office of the Assistant Secretary of the Air Force (Acquisition)] to pull together both and address both issues in the brief. SECAF called this 'Tanker 101.' SECAF would like to see this early the week after next, 8-12 April, and target it to DSD that same week. He also said that it be vetted with E Ring on the way to him.

On March 29, 2002, as a result of [REDACTED] e-mail, [REDACTED] Office of the Assistant Secretary of the Air Force (Acquisition), on behalf of Dr. Sambur, sent an e-mail to Major General Essex and Brigadier General Bowlds with a cc: to [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] Office of the Program Executive Officer, Strategic Programs, Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] Office of the Assistant Secretary of the Air Force (Acquisition); and [REDACTED] Office of the Assistant Secretary of the Air Force (Acquisition). In the e-mail, [REDACTED] stated that:

b(6) - OSD Redaction

MGen [Major General] Essex/BGen [Brigadier General] Bowlds, Dr. Sambur requested that you and your staffs take the lead on this brief. Request that you work the brief through AQ [Office of the Assistant Secretary of the Air Force (Acquisition)] before going to the SECAF [Secretary of the Air Force] and DSD [Deputy Secretary of Defense] the week of 8th April.

**April 2002.** On April 1, Mr. Andrew K. Ellis at Boeing sent an e-mail to Mr. Gerald E. Daniels with a cc: to Mr. Rudy F. De Leon, Mr. John A. Lockard, and Mr. Bob Gower at Boeing. In the e-mail, Mr. Ellis stated that:



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[J]erry:

[D]avid and /or [B]ob will presumably follow with more detail – but some quick points on this afternoon's tanker RFI [request for information] debrief session:

o [Messrs.] [S]pong, [G]ower, [S]ams, [E]llis and [F]ergeson attended from [B]oeing, [Ms.] [D]ruyun, [Major General] [E]ssex and [Brigadier General] [B]owlds from [A]ir [F]orce.

o [M]eeting lasted approx. 90 minutes.

o [D]arleen [Druyun] read both responses cover to cover – said ours [Boeing's] was detailed, comprehensive and very helpful.

o [B]ob can provide far better technical summary of debrief, but in sum, there were several instances where we rated ourselves green and [A]ir [F]orce rated us yellow, with moderate risk. [I]n almost all instances, the risk was schedule related. [T]hroughout the assessment, [B]oeing's extended experience with tankers was a noted strength and discriminator.

o [W]ithout going into any detail, [D]arleen noted that EADS [European Aeronautic Defence and Space Company] had not costed a full-up tanker in their response – so [A]ir [F]orce had to figure out how to 'normalize' their proposal in order to compare it to ours from the business perspective.

o [V]ery aggressive schedule. [A]ir [F]orce schedule is to have a 'package' deal by end of [A]pril – in only 30 days. [T]hey would hope to then move it through [OSD] and [OMB] in [M]ay timeframe with [J]une being target date for report to [C]ongress. ([N]ote: [J]erry...[D]arleen wants to have a mid-month status review with you. [W]e notionally targeted [A]pril 17 when you are scheduled to be in [D].[C]. all day.)

o [E]ngagement with SPO [system program office] (who has been told same) starts tomorrow.

o [D]arleen repeatedly came at us on price throughout the discussion. [S]aid she went back to KC-10 deal, and observed that we offered the green a/c [aircraft] at approx. [REDACTED] discount off of list price. [N]oted that our webpage list price for a green 767 was 'approx.' \$100M (actually, it's a range from \$100-\$112M). [I]f this is her benchmark, we aren't in too bad shape based on the little [I] know.

b(4)

o [A]lso noted that the SPO 9[B]ob [M]arks) was around for and involved in the KC-10 deal as well as for C-32 and Gulfstream lease discussions – lots of experience.

o [D]arleen told us several times to keep in mind that EADS proposed price on green A330 was \$5 - \$17M cheaper than green 767.

o [D]arleen is fearful/concerned with [a Senator], prospect of [SASC] [Senate Armed Services Committee] hearings, etc, etc. ([N]ote: [R]udy, we can probably do ourselves a lot of good and also help [A]ir [F]orce confidence by putting together a '[a Senator]/sasc [SASC]' strategy – led by [a Senator], etc, etc. [I]n general, [I] just think the [A]ir [F]orce hopes to see and hear more vocal tanker support coming from hill [Congress] – particularly some 'counter battery' fire every time [a Senator] attacks the program or the [A]ir [F]orce.

o [I]ndicated that [a Senator's] staff had already requested a debrief. [A]ir [F]orce plans to provide a debrief, will not leave anything behind and will require signature of non-disclosure ([N]ote: based on discussions following meeting, [D]arleen would very much like to brief 'friendlies' on the RFI. [I] will talk with [P]hil [R]uter about getting

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appropriate member's and committee staff to make the request for briefing.)

o [O]ne of 'business' risk areas cited was concern over FAA [Federal Aviation Administration] certification. [I]n this context, [D]arleen made a clear point of bring up our JSF [Joint Strike Fighter] problem relative to [S]eattle and [S]t. [L]ouis not being 'in synch' etc, etc. [S]trongly urged us to ensure that [S]eattle and [W]ichita and [S]t. [L]ouis were all completely 'in synch' so we didn't run into a FAA problem of our own organizational making.

o [A]nother 'business' risk area was indemnification -- not a surprise.

o ORD [operational requirements document] has been through AFROC [Air Force Requirements Oversight Council] (JROC [Joint Requirements Oversight Council] in May timeframe). [S]ince last discussions with [B]oeing, [A]ir [F]orce has apparently split the ORD up into 3 'spirals.' AFROC insisted on adding wing tip pods. [H]opes this will help ensure for [N]avy backing/support in JROC. [Emphasis added.]

o [D]arleen believes that changes to approps. [appropriations] language (to allow for purchase option in particular) is a non-starter -- she believes it is much too hard an issue and that CBO [Congressional Budget Office] and OMB [Office of Management and Budget] will never change their minds. ([N]ote: she [Ms. Druyun] did mention that [a Representative] had called offering to help with language 'tweaking' if necessary. [R]udy: don't know if sac [Senate Appropriations Committee] staff has different perspective on do-ability and score-ability of language changes -- [D]arleen was very, very negative on prospects of getting anything through CBO, let alone OMB -- to point of saying none of us should waste our time worrying about it.

[O]verall, a very good meeting. [B]ob and his team obviously did a great job in putting together our response to the RFI. [A]ir [F]orce fully committed to working this in months ahead as an IPT [integrated product team].

[L]ots of sober realization that huge tasks still ahead -- but it wouldn't be fun if it were any other way!!!

On April 2, 2002, is the date of the final draft version of the operational requirements document, which is "locked" at this point to initiate final coordination and provide a "stabilized" position with which to negotiate with Boeing.

On April 8, 2002, negotiations with Boeing began. Air Force's position was to begin replacing the KC-135 fleet as soon as possible due to increasing challenges with maintaining a 40 plus-year old aircraft and the demands of the War on Terrorism.

On April 21, 2002, Major General Leroy Barnidge, Air Force Director of Legislative Liaison sent an e-mail to Dr. Roche; General Jumper; General Foglesong; Mr. Peter B. Teets, Under Secretary of the Air Force; Lieutenant General Joseph H. Wehrle, Jr., Air Force Assistant Vice Chief of Staff; and Ms. Druyun with a cc: to [REDACTED] Office of the Secretary of the Air Force; Mr. William C. Bodie, Special Assistant to the Secretary of the Air Force; [REDACTED] Executive Officer to the Air Force Chief of Staff; [REDACTED] Office of the Air Force Vice Chief of Staff; [REDACTED] Office of the Under Secretary of the Air Force; [REDACTED]

[redacted] Office of Legislative Liaison; [redacted] Office of Legislative Liaison; [redacted] Office of Legislative Liaison; [redacted] Office of Legislative Liaison; Major General Essex; [redacted] Office of Legislative Liaison; [redacted] Office of Legislative Liaison; and Brigadier General Thomas L. Carter, Military Assistant to the Director of Legislative Liaison. In his e-mail, Major General Barnidge discussed a meeting Ms. Druyun and Major General Essex had with congressional staff concerning the status of the KC-767 lease.

Subject: Back brief on Meeting with [a Congressional Staffer]

Escorted Ms. Druyun, Maj Gen [Major General] Essex and [redacted] over to see [a congressional staffer] today to discuss the AF [Air Force] evaluation of the responses to the tanker lease request for information (RFI). It was a very productive and worthwhile meeting on very many levels, due mainly to Mrs. Druyun's ability to speak authoritatively to all subjects. She started by giving [the congressional staffer] background on how we got to where we are with respect to the RFI responses and then proceeded with the prepared briefing on the tanker lease RFI evaluation.

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[The congressional staffer] seemed very interested in the process by which EADS [European Aeronautic Defence and Space Company] formulated their response to the RFI, i.e., was the AF available to take their calls, did EADS believe their questions were answered timely and accurately etc. [The congressional staffer] was satisfied that EADS was provided all information requested from the AF for use in their RFI response, and that they had missed the mark. There was a short discussion on EADS's future viability and competitiveness.

[The congressional staffer] asked about the way ahead and when would the AF be able to come to the Hill with their findings.

Mrs. Druyun explained that we need to develop the classic business case along with a net present value workup IAW [in accordance with] OMB [Office of Management and Budget] Circular A-11, then present this to the OSD [Office of the Secretary of Defense] Leasing Panel after the leadership in the AF has all been briefed. She predicted this would be sometime in mid to late May.

[The congressional staffer] asked about the GAO [then General Accounting Office] process and expressed that he did not want that to slow this lease process down. He stated that the going forward with the lease satisfies the desires of Congress (mentioned the overwhelming majority of Congress wants this to go forward). He made the specific point that there is a law in the books today that tells the USAF [U.S. Air Force] to go forward with a lease, so we need to go forward. Short of any change in the law we need to press forward with the lease.

[The congressional staffer] stated that [a Representative] and most Members believe the USAF needs these aircraft. He commented that the leasing approach may not be the best way to get it done but the bottom line is we need a platform and a lot of people (overwhelming majority) thought this legislation would move this process forward. [The congressional staffer] stated that if a small minority succeeds in stopping this current lease effort, we will be without a KC-135 replacement for a long time. There is a window of opportunity here that if it closes might not be available for some time. Certain Members and their staffs need to get over when they were notified-- first or last-- and get on with what is best for the country. Mrs. Druyun stated that the best she thought we

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would be able to negotiate is a six or seven-year lease. The driving factor for this is the market value of the aircraft at the end of the lease. **It will be very difficult to remarket 100 767 tankers.** [Emphasis added.]

[The congressional staffer] said several times how much he appreciated us coming. He said that there is a strong but silent majority who want this to go forward. He said he is satisfied we are moving along despite some of the official comments by the AF. He reiterated that if this falls through, re-engagement will be difficult.

Several other topics were discussed:

[The congressional staffer] asked about the status of the 737 lease. Mrs. Druyun stated that the business case will be tough to make. Mrs. Druyun said that she received the Boeing proposal and she did not like it. She has engaged Boeing senior management and she is working the issue to get the best deal available. [The congressional staffer] stated that the business case is not everything, that there are other factors involved. [The congressional staffer] stated there are a lot of people expecting to use of the two Ford Aerospace BBJs this July. Mrs. Druyun said she understands and will do her best. She said the results of the business case should be over to the Hill around the 20th of May.

Another issue discussed pertained to the Berry Amendment (buy only American forged specialty metals), and how in this case it will significantly increase the costs of manufacture for both the 767 and 737 while allowing unfair advantages to foreign manufacturers like EADS. [The congressional staffer] was surprised by the implications and asked if relief could be provided through legislation.

There were two taskers pertaining to requests from [the congressional staffer] for draft legislation:

-Provide draft legislation which may provide relief/clarification on the Berry Amendment with respect to amending Section 8159 of the Approps Act.

-Provide draft legislation WRT [with respect to] to Sect [Section] 8159 which provides for lease options such as lease to buy etc.

On April 22, 2002, Mr. Jaymie Durnan, The Special Assistant to the Secretary and the Deputy Secretary of Defense forwarded an e-mail from Mr. Thomas Christie, Office of the Director, Operational Test and Evaluation to Dr. Roche and Mr. William C. Bodie, Special Assistant to the Secretary of the Air Force. Mr. Christie's e-mail included a "Defense Week" article, "Private Aerial Tanker Earns Navy's Praise."

On April 22, 2002, Dr. Roche forwarded Mr. Durnan's e-mail with the "Defense Week" article, "Private Aerial Tanker Earns Navy's Praise," attached to Dr. Sambur and Ms. Druyun with a cc: to General John Handy, Air Mobility Command; General John Jumper, Air Force Chief of Staff; and Mr. William C. Bodie and stated:

What do you all think? [A Senator] will beat us up on this, so let's do our homework. Note that Omega doesn't refuel N [Navy] aircraft near Afghanistan. There are war insurance issues, etc.

On April 22, 2002, Ms. Druyun forwarded Dr. Roche's e-mail with the "Defense Week" article, "Private Aerial Tanker Earns Navy's Praise," attached to Major

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General Bill Essex, Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) and stated:

See me on this so that we can get our ducks in order to shoot this down.

**May 2002.** On May 3, an Office of Management and Budget official sent a letter to a Senator in which he stated:

Dear Senator:

Thank you for your letter of April 17, 2002 in which you asked us for the preliminary results of our analysis of the following areas related to the Air Force's tanker fleet.

Air Force tanker analysis related to KC-135E replacement and tanker requirements

The Air Force has recently completed two studies of its tanker fleet and tanker requirements - the KC-135 Economic Service Life Study (ESLS) and the Tanker Requirements Study 05 (TRS-05). The ESLS and TRS-05 were both large, detailed, computer-based analyses of the fleet and tanker requirements of which OMB [Office of Management and Budget] does not have intimate knowledge. However, we are aware of the major conclusions of these studies.

The ESLS looked at the projected cost of maintaining the current fleet of KC-135 tankers (both the 'E' and the 'R' models) and at the availability of the aircraft as they age. The study concluded that maintenance costs would rise by \$23 million/year over the next 40 years. In terms of aircraft availability, the ESLS concluded that there would be a gradual decline as the aircraft age. However, study determined that only six aircraft would have to be retired before 2040 because they would exceed their airframe life. The TRS-05 examined force (in this case tanker) requirements in various strategic scenarios (the TRS-05 was based on the same scenarios and assumptions as DoD's Mobility Requirements Study 05). We understand that TRS-05 identified tanker capacity shortfalls under some specific (classified) circumstances.

The Air Force proposes to replace the entire KC-135E fleet with 100 Boeing 767 tanker aircraft. Although the ESLS and TRS-05 did not examine the question of replacing aircraft in the existing fleet, they are pertinent to the issue since:

- the current fleet consists of about 410 KC-135Rs and 126 KC-135Es in good condition, providing a total KC-135 tanker capacity of about 105 million pounds of fuel;
- upgrading 126 KC-135Es to the 'R' model would result in a total capacity of over 106 million pounds of fuel – an increase of around 1.7 million pounds over existing capacity. The estimated cost of converting the 126 'E' models to 'R' models to get this increase would be about \$3.2 billion. However, the Air Force has chosen not to pursue this route; replacing 126 KC-135Es with 100 Boeing 767 tankers, while maintaining 410 KC-135Rs, would result in an overall tanker fleet capacity of about 103 million pounds of fuel – a decrease of almost 2 million pounds (because the larger capacity of a B-767 would not be enough to compensate for the less than 1:1 aircraft replacement rate). The estimated cost of the B-767s would be between \$18 billion and \$26 billion (the difference between direct purchase and leasing due to the cost of money).

In other words, replacing the KC-135E fleet would not solve, and could exacerbate, the shortfalls identified in the TRS-05. It is quite possible

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that greater operational availability of the new B-767 aircraft could mitigate the impact of such a reduction in total fleet capacity. We will continue to assess these issues as the Air Force develops its proposal.

A cost comparison between possible alternatives for improving the tanker fleet

The Air Force's discussions with Boeing regarding leasing 100 B-767 tankers are still ongoing. We, therefore, have no basis to change our previous cost estimates for leasing or direct purchase of B-767 tanker aircraft. We believe, however, that there are four options for the tanker fleet:

- Do nothing. This is the path analyzed by the Air Force in its two studies. It results in increased long-term costs of \$23 million/year paid out over 40 years, accepts the risk of shortfalls in certain scenarios, but avoids potentially large up-front costs of \$3-26 billion, depending on the option.
- Convert 126 KC-135'E' tanker models into KC-135'R' models. The AF [Air Force] has already conducted a re-engining and upgrade program for most of its KC-135s, to convert them to the 'R' model, which the Air Force plans to keep in service until perhaps 2030 or 2040 depending on usage. In all, the Air Force has already re-engined 410 aircraft, leaving only 126 'E' aircraft in the Air National Guard fleet with older engines that could also be converted into an 'R' model. Such an option could be achieved for an estimated cost of about \$3.2 billion spread over a period of 6 years (about \$525m/yr [\$525 million/year]). The advantages of this option are that the fuel offload capacity of each aircraft would be increased and the total fleet capacity increased to solve some of the shortfalls identified in the TRS-05. Moreover, maintenance costs of the current aircraft would be reduced. In addition, this option would increase the capacity of the fleet sooner than other alternatives (all converted aircraft could be delivered by 2009).
- Direct purchase of 100 Boeing 767 tanker aircraft and retirement of the KC-135E fleet. Based on a price of \$150 million per airplane, which we understand is a reasonable possibility, and including required military construction, this option would cost approximately \$18 billion and would not be complete before 2011/12. The Air Force would have to fully fund these aircraft in its budget request. New B-767s would provide the Air Force with all the advantages of a modern aircraft with greater availability and a potential life longer than that of converted KC-135R aircraft. However, because 100 B-767 aircraft would replace 126 KC-135Es, the total tanker fleet capacity would be reduced and would not solve any of the shortfalls identified in TRS-05.
- Lease 100 Boeing 767 aircraft in accordance with section 8159 of the FY2002 Defense Appropriations Act. We understand section 8159 to mean that the lease would cover the aircraft in its basic, or transport, configuration, which the Air Force would then modify into a tanker configuration. At the end of the 10 year lease period the Air Force would de-modify the aircraft and return them to Boeing in their original transport configuration. In this way the Air Force could meet the criteria of an operating lease. The Air Force believes that the base aircraft cost is \$90 million with tanker conversion and de-conversion costs adding \$60 million to the price. As we indicated to you in our letter dated December 18, 2001, we believe that the total cost of this option would be \$26 billion in then-year dollars. This option would provide aircraft on the same schedule and have the same tanking capacity as the direct purchase

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option with lower near-term costs, but would require that the Air Force return the aircraft after 10 years, meaning that they would have to develop an alternative for the tanker fleet by that time.

We have no basis at this time to change our \$26 billion estimate, since discussions between the Air Force and Boeing to determine the possible lease arrangements for such an aircraft are still ongoing. However, we understand that the Air Force interprets section 8159, together with a colloquy reported in the Congressional record on December 20, 2001, to mean that a B-767 tanker is a general purpose aircraft. In an exchange involving Senators, the Members stated they believed a converted 767 qualified 'as a general purpose aircraft.' This position presumes there is an active commercial market for tankers which would therefore relieve the Air Force of costs associated with conversions.

Clearly, this interpretation would make it financially easier for the Air Force to meet the conditions for an operating lease imposed by section 8159 because they could amortize the costs of tanker conversions over ten years instead of paying for conversions up front. While we are currently unaware of any commercial buyer or interest in purchasing 100 tankers, OMB will provide its views on the Air Force interpretation to you in the next few weeks.

The Air Force's tanker RFI [request for information] process

OMB did not conduct a detailed analyses or audits of the Air Force's RFI process for tanker aircraft. However, our overall impression of the Air Force's tanker RFI process is that it was done in a reasonable and fair manner. From what we know we have no reason to believe that the outcome would have been any different had another entity evaluated the two proposals, given the Air Force's requirements. Boeing simply appears to have more experience in air-to-air boom refueling than Airbus. Regarding other potential companies, we do not know of any other companies that were both capable of, and interested in, responding to the RFI.

Leasing policy

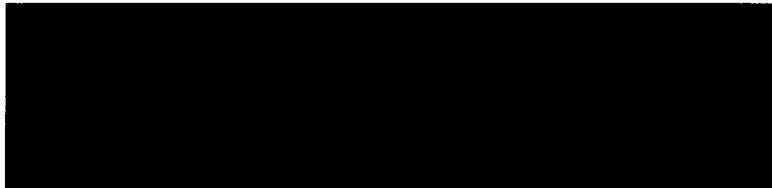
You asked us to examine the policy of leasing major defense programs and to evaluate the role of DoD's recently established Leasing Review Panel. When analyzing capital leases, we believe it is critically important to compare the full cost of the lease with other methods of acquiring the capital assets, including direct purchases. We also believe that [a White House official] and the Congress should consider the full cost of capital acquisitions when they make budget decisions to allocate resources to Federal agencies and programs. For that reason, we strongly support the budget scoring rules for leases, which were agreed to by the Congress and [the White House official] as part of the Budget Enforcement Act of 1990. The rules distinguish operating leases from capital leases and address the fact that some capital leases are virtually equivalent to the purchase of a capital asset, with most or all of the benefits and risks of ownership transferred to the government, while others are more like rentals. They require agencies to fund the full cost of purchases, lease purchases, and capital leases up-front in the first year of the transaction. In this way, the full cost is recognized at the time when decisions are made to incur that cost, regardless of the source and form of financing, so that Congress and [the White House official] have the incentive and the information necessary to make the most efficient use of taxpayers' money.

The Defense Department's Leasing Review Panel, of which OMB is a member, has not yet met because the Air Force has not yet completed its proposal to lease B-767s and B-737 executive jets.

Infrastructure costs

As we indicated in the attachment to our December 18, 2001 letter we believe the infrastructure costs associated with the purchase or lease of Boeing 767 aircraft to be approximately \$1 billion.

On May 30, 2002, [REDACTED]



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**June 2002.** On June 4, Dr. Sambur, Assistant Secretary of the Air Force (Acquisition) sent a policy memorandum, "Reality-based Acquisition System Policy for all Programs," to Air Force Mission Area Directors, Functional Area Directors, Program Executive Officers, and Designated Acquisition Commanders. In the memorandum, Dr. Sambur stated that:

Effective immediately, AFPD 63-1 [Air Force Policy Directive 63-1, 'Capability-Based Acquisition System'], dated 31 August 1993 is superseded by this policy memorandum. Compliance with this memorandum is mandatory. This policy memorandum applies to Acquisition Category (ACAT) IC and IAC through ACAT III acquisition programs, including system modifications; it does not cover acquisition associated with non-ACAT programs. This policy implements guidance from the SECAF [Secretary of the Air Force] and CSAF [Chief of Staff Air Force], hereafter identified as the Commanders' Intent, and Department of Defense Directive (DoDD) 5000.1, The Defense Acquisition System, DoDD 5000.2, Operation of the Defense Acquisition System and DoDD 5000.2R, Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information Systems (MAIS acquisition programs). This policy memorandum does not apply to Air Force Space programs, which are under the purview of the Under Secretary of the Air Force.

The two overarching objectives of this policy are: 1) shortening the acquisition cycle time and, 2) gaining credibility within and outside the acquisition community.

Every action and decision by individuals responsible for program execution must map directly to, and further these two primary objectives. Members at all levels of the acquisition workforce are expected to seek innovative ways to achieve these objectives. This must be accomplished through teamwork, trust, common sense and agility. The intent is to give those accountable for program execution maximum flexibility.

Unlike previous acquisition guidance, this policy is broad and non-prescriptive. Wherever possible, it uses terminology familiar to our customer, the warfighter.

**Commander's Intent:**

The primary mission of our acquisition system is to rapidly deliver to the warfighters affordable, sustainable capability that meets their expectations. All actions by any leader, staff or supporting organizations will support the Commander's Intent.



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**Commander's Initial Guidance:**

- 1) Program managers will ensure full compliance with the law; however, over restrictive implementation of the law that goes beyond what is required in statute must be challenged if the value added to the program does not equal or exceed the resources expended.
- 2) Success in meeting our objective requires a shift from avoiding risk to managing it, and sometimes, simply accepting it. Taking risks will sometimes produce failure. That is acceptable as long as those in the execution chain understood the risks and we learn from the failure.
- 3) Speed is important. In devising and implementing acquisition approaches, the concept of time or schedule as an independent variable is one that must override prior concepts of delivering the ultimate capability at whatever cost and schedule is necessary to do so. Every key decision must have an operational sense of urgency.
- 4) Credibility is essential. We must create and maintain realistic expectations. Program Managers (PMs) must continually manage expectations so that senior acquisition and warfighter leadership are never surprised by sudden cost growth, performance shortfalls or schedule slippages. Each program must have a clear, unambiguous set of priorities among cost, schedule, performance and supportability. Normally, the senior leadership of the requiring MAJCOM [major command] should set these priorities as part of the initial requirement.
- 5) Teaming among warfighters, developers/acquirers, technologists, testers, budgeters and sustainers must begin when the requirements are being defined, not after. PMs through the MDA [milestone decision authority], are responsible for making decisions and leading implementation of programs, and are accountable for results. The PM, as the accountable agent for executing the program, has a responsibility to seek resolution if asked to do something that goes counter with meeting the Commander's Intent. There are two avenues for appeal available to the PM: the Air Force Acquisition Center of Excellence (ACE) (located both at SAF/AQ [Assistant Secretary of the Air Force (Acquisition)] and HQ AFMC [Headquarters, Air Force Materiel Command]), and the MDA.
- 6) Solid systems engineering is required at the outset of a program to ensure a robust foundation and flexible architecture that can accommodate future requirements with minimal redesign.
- 7) Staffs at all level[s] exist to advise the MDA and PM and assist them with their responsibilities. Councils, committees, advisory groups, panels and staffs are advisers at the discretion of the PM, PEO [program executive officer] or DAC [Designated Acquisition Commander] or MDA. The MDA, PEO or DAC and PM are accountable for the overall program results. Those not accountable for program outcome are expected to provide objective inputs to the program decision process, but do not have decision-making authority.

Evolutionary Acquisition (EA) is the preferred acquisition strategy for achieving the Commander's Intent. Spiral development is the preferred process to execute the EA strategy except in those exceptional cases where it is possible to field a full capability in 18 months or less.

All programs start with a 'zero-based' perspective. All activities, reports, plans, coordination or reviews except those mandated by statute or previously approved by a person in the execution chain, must buy their way into the program by demonstrating that the benefit gained clearly equals or outweighs the resources expended.

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The success of an acquisition program hinges on up-front, collaborative and concurrent planning by the MDA, technologists, developers/acquirers, sustainers, budgeters, warfighters, and testers. The goal is to establish, at the outset of the program, mutual, realistic expectations for content delivered, schedule of delivery, and cost.

Additional 'DRAFT' guidance on the concepts required by this policy memorandum is available on the SAF/AQ web site <http://www.safaq.hq.af.mil> under 'Acquisition Center of Excellence' or 'Policies - SAF/AQXA [Chief, Acquisition Management Policy Division, Office of the Assistant Secretary of the Air Force (Acquisition)].'

On June 17, 2002, Mr. Andrew K. Ellis at Boeing sent an e-mail to Mr. Gerald E. Daniels at Boeing with a cc: to Mr. Bob Gower and Mr. John B. Sams, Jr. at Boeing in which he stated:

[J]erry:

[P]er a recent [P]hil [R]uter conversation with SAC [Senate Appropriations Committee] staff -

[D]arleen approached SAC staff on [F]riday, seeking legislative relief (in the on-going FY02 supplemental conference) on TL [termination liability] scoring issue. [I]n essence, wants language to say TL payments can be made out of O&M [operation and maintenance] funds available at time of payment.

[N]o definite commitment out of SAC, but issue being explored.

[S]he may be running her own covert operation on this one, so we probably don't want to discuss openly. [Emphasis added.]

On June 17, 2002, in response to Mr. Andrew K. Ellis' e-mail, Mr. Bob Gower sent an e-mail to Mr. Andrew K. Ellis and Mr. Gerald E. Daniels with a cc: to Mr. John B. Sams, Jr.; Mr. Jack M. House; Mr. E. David Spong; Mr. Randall R. Simons; Mr. John E. Ferguson; and Mr. Jerry A. Ferguson at Boeing in which he stated:

Darleen mentioned this today is [sic] our session. She said they made it sound like a technicality that Dave Morrison thought he could slide through. Do not have the language.

Meeting today on price was very good. Darleen spent most of the time bringing the USAF [U.S. Air Force] pricer up to our number. We did not finalize the price because the USAF went to caucus on how to present the figures for the business case. It was a good day! [Emphasis added.]

**July 2002.** On July 24, Major General Leroy Barnidge, Air Force Director of Legislative Liaison sent an e-mail to Dr. Roche with a cc: to [REDACTED] Chief, Senate Liaison Office, Office of Air Force Legislative Liaison in which he stated:

b(6) - OSD Redaction

Boss -

[A congressional staffer] has been playing a pretty heavy game with us ref 'a personal copy of the DRAFT 737 contract (that we provided to the committee) for [a Senator].' You may recall, we had [congressional staffers] supporting us by saying that if the Senator wants a copy, then we (the committee) will give him one. Well, true to their word, they

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made the offer. [The congressional staffer], in the name of the Senator, said the Senator wants/deserves his own copy (addressed to him) from the AF [Air Force] and has made a formal request. I have been stalling since last evening on this. The 'emotionalism' associated with his demand has grown exponentially. HOWEVER, when I now balance the potential downsides of continued stalling (i.e., he can put a stop to the reprogramming authority for 737 which can really impact our program, and also may impact any number of other issues, including 767 if/when we hand them a pkg [package]), I just need to make sure I'm not getting ahead of my headlights in this 'game' with [the congressional staffer].

Thus: I have stalled on giving [the congressional staffer] a copy of the 737 contract (for [a Senator]) for at least 24 hrs. Tomorrow, at 1400, we have AQ [Office of the Assistant Secretary of the Air Force (Acquisition)] lined up to provide [the congressional staffer] a brief on the 737 (as promised).....We would have coord'd [coordinated] for you to attend if the Senator was actually in attendance. Before our briefer goes to see [the congressional staffer], I feel that we should decide whether we are in the business of providing members DRAFT copies of a contract (that we have already provided to the committee) or not. It IS precedent setting (in my opinion). However, in balance, given that we have given it to the committee, I feel that there is probably no reason not to answer an official request from any other committee member (because the 'potential costs' probably aren't worth it).

But, sir, request your vectors.....

On July 24, 2002, in response to Major General Leroy Barnidge's e-mail, Dr. Roche sent an e-mail to Major General Leroy Barnidge with a cc: to [REDACTED] and Ms. Mary L. Walker, Air Force General Counsel in which he stated:

Leroy, fall back to Mary's point of giving [a Senator] a copy with the proprietary info warning attached.  
Mary, pls [please] help Leroy ASAP [as soon as possible].  
Thanks much. JGR [James G. Roche]

On July 24, 2002, in response to Dr. Roche's e-mail, Major General Leroy Barnidge sent an e-mail to Dr. Roche with a cc: to [REDACTED] and Ms. Mary L. Walker in which he stated:

b(6) - OSD Redaction

Thanks Boss...and, we've already coord'd with GC [General Counsel] and have a good cover letter to attach. We'll make it happen.

On July 30, 2002, General Peter Pace, Vice Chairman of the Joints Chief of Staff sent a memorandum, "Air Refueling Aircraft (ARA) Operational Requirements Document (ORD)," to the Under Secretary of Defense for Acquisition, Technology, and Logistics in which he stated that:

The Joint Requirements Oversight Council (JROC) reviewed and approved the ARA ORD [Air Refueling Aircraft Operational Requirements Document] and validated the enclosed Key Performance Parameters (KPPs). The JROC considered the KPPs essential to meet the mission need. The JROC also recommends delegation of ORD approval authority to the Chief of Staff of the Air Force.

The key performance parameters included fuel offload versus range, tanker air refueling, boom air refueling, drogue air refueling, receiver air refueling,

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worldwide airspace access (Global Air Traffic Management compliant), and interoperability. The following discusses those key performance parameters and associated thresholds and objectives:

- Fuel Offload Versus Range. To meet the threshold, "The aircraft shall be capable of a no-wind offload versus range as depicted in Chart 1." The chart showed that the fuel offload decreased as the radius distance increased. The objective was higher than the threshold.
- Tanker Air Refueling. To meet the threshold, "The aircraft must be able to use (non-simultaneously) both boom and drogue air refueling systems, day or night, on the same flight." The objective was the same as the threshold.
- Boom Air Refueling. To meet the threshold, "The aircraft must be capable of accomplishing boom air refueling of all boom-receptacle equipped receiver aircraft identified in AF [Air Force] technical orders 1-1C-1-3 and 1-1C-1-33, the F-22 and Joint Strike Fighter (JSF) using current procedures and refueling airspeeds with no modification to existing receiver air refueling equipment and no restrictions to the refueling envelope due to lighting/shadows." The objective was the same as the threshold.
- Drogue Air Refueling. To meet the threshold, "The aircraft must be capable of accomplishing drogue air refueling of all drogue-refuelable receiver aircraft identified in AF [Air Force] technical orders 1-1C-1-3 and 1-1C-1-33 and the JSF [Joint Strike Fighter] using current procedures and refueling airspeeds with no modification to existing receiver air refueling equipment." The objective was the same as the threshold.
- Receiver Air Refueling. To meet the threshold, "The aircraft must be capable of operating in various inclement/adverse weather environments (IAW [in accordance with] KC-135/KC-10 aircraft directives) for day and night receiver air refueling to maximum fuel load from a KC-10, KC-135, or this aircraft using current air refueling procedures." The objective was the same as the threshold.
- Worldwide Airspace Access. To meet the threshold, "The aircraft shall be capable of worldwide flight operations in all civil and military airspace including Reduced Vertical Separation Minima (RVSM) and Future Air Navigation System (FANS) 1/A airspace." The objective was the same as the threshold.
- Interoperability. To meet the threshold, "100% of top-level Information Exchange Requirements (IERs) designated critical will be satisfied." To meet the objective, "100% of top-level IERs will be satisfied."

**August 2002.** On August 7, Ms. Miriam Thorin sent an e-mail to Dr. Roche in which she stated:

Paris.--European Aeronautic Defense & Space Co. NV (N. EAD) said Wednesday that it has appointed Ralph Crosby to head its North

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American operation. Until January, Crosby was president of Northrop Grumman's Integrated Systems division, EADS [European Aeronautic Defence and Space Company] said in a statement.

'As our senior official in the U.S., (Crosby) will oversee our efforts to expand our business, develop industrial partnerships, and ensure strong customer relationships in this critical market,' EADS said.

Crosby will assume his position on Sept. 1. Manfred von Nordheim, EADS's current top representative in the U.S., will continue to work as a senior adviser, the company said.

Cordially,  
Alex

On August 7, 2002, Dr. Roche sent an e-mail to Mr. William C. Bodie, Special Assistant to the Secretary of the Air Force discussing the appointment of [REDACTED] at the European Aeronautic Defence and Space Company. In the e-mail, Dr. Roche stated:

Well, well. We will have fun with Airbus!  
Jim

On August 20, 2002, Mr. Wayne A. Schroeder, Deputy Under Secretary of Defense (Resource Planning/ Management), Office of the Under Secretary of Defense (Comptroller) sent an e-mail to Dr. Dov S. Zakheim, Under Secretary of Defense (Comptroller) with a cc: to Mr. Lawrence J. Lanzillotta, Principal Deputy and Deputy Under Secretary of Defense (Management Reform), Office of the Under Secretary of Defense (Comptroller). In the e-mail, Mr. Schroeder stated:

Dov,

Due to some schedule conflicts and absences, [REDACTED] requested that we reschedule the 767 tanker meeting with OMB [Office of Management and Budget] to later this week or next. But I did have a chance to speak with [REDACTED] about OMB's high profile. [REDACTED] said that OMB has been responding to letters from [a Senator] (they also just received a letter on the issue from [a Representative]). So part of their public profile has to do with responding to congressional requests for their position on the issue - [a Senator] wanted to get it 'on the record.' But [REDACTED] did say that the political leadership at OMB feels very strongly about the lease, and has decided to take a public posture knowing the effects this might have. He suggested you talk directly with Robin [Cleveland] if you want more information on the politics of the lease at OMB. He also gave me some insights into what OMB has learned about the lease from technical questions the Air Force has posed to them:

1. The deal is looking 'worse and worse.'
2. OMB is getting a lot of Air Force questions about A-94 and lease-purchase analysis.
3. Boeing will not finance this deal. It would be financed through an investment group or special purpose company partly owned by Boeing, the engine manufacturer and other investors. The Air Force would lease the tankers from this investment group, which would issue a set of bonds at different terms and interest rates.
4. The Air Force had questions for OMB about what interest rate they can use. Predicting interest rates is problematic, and could have a major impact on the analysis. OMB thinks the Air Force will want a very low interest rate and very high discount rate to make the lease-purchase analysis work.
5. The marketability of the aircraft is an issue. The Air Force will likely propose for purposes of calculating the residual value of the aircraft, that

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at the end of the lease they be sold as either freighters or tankers. Not all 100 could be sold as tankers in the open market.

6. OMB thinks the Air Force could have gotten a much better deal on the purchase price than what they will show in the analysis.

7. To convince investors that this is not a risk, the Air Force will tell them that they will buy the aircraft at the end of the lease. This raises the question of why this will be structured as an operating lease, when the intent is clearly lease-to-buy. If this turns out to be the case, it will be an issue.

As we get more details, I will pass more information on to you and Larry after we hold the meeting with OMB. [REDACTED] said he thought the Air Force and Boeing might finalize negotiations toward the end of next week.

On August 20, 2002, in response to Mr. Wayne A. Schroeder's e-mail, Dr. Dov S. Zakheim sent an e-mail to Mr. Wayne A. Schroeder with a cc: to Mr. Lawrence J. Lanzillotta in which he stated that:

[T]his does seem very troubling.

On August 20, 2002, Mr. Lawrence J. Lanzillotta forwarded Mr. Wayne A. Schroeder's e-mail to Mr. John Roth, Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller); and Mr. Ronald G. Garant, Director, Investment, Office of the Under Secretary of Defense (Comptroller).

On August 21, 2002, in response to Mr. Wayne A. Schroeder's e-mail, Mr. Ronald G. Garant sent an e-mail to Mr. Lawrence J. Lanzillotta with a cc: to Mr. John Roth, and Mr. Wayne A. Schroeder in which he stated:

I talked to [REDACTED] a month or so ago. He was the AF [Air Force] deputy comptroller. The AF hired him to give their proposal the grandmother test and as far as he was concerned it didn't pass. He contends that the purchase price is probably over stated by 50% and he contends that the residual value is also very much overstated for a non-Air Force market. He was also concerned about the discount and interest rates used in the calculations.

Since we all know that this is a bailout for Boeing why don't we just bite the bullet and do what we did when we were bailing Douglas out on the KC-10's. We didn't need those aircraft either, but we didn't screw the taxpayer in the process. The 767 is not the latest in technology. If we were going to get serious about buying the best I am sure that some rendition of the 777 would win out.

I don't know of anyone who is dissatisfied with the outcome of the KC-10 deal. The Air Force should be made to come back with an analysis of why we couldn't do the same with the 767. **What we in effect would be buying is the tail end of the production line and should be getting the best price, not the inflated price that they want to put in the lease formula. The key of course is to include some competition into the purchase process.** [Emphasis added.]

On August 28, 2002, [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) sent an e-mail to Dr. Sambur with a cc: to Ms. Druyun, Major General Essex, and Brigadier General Bowlds in which he stated:

b(6) - OSD Redaction

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Sir,

Per your request:

Info we've made public:

Negotiations continue and are entering their final phase. We are cautiously optimistic that a lease deal that complies with the law and OMB [Office of Management and Budget] circulars can be reached. Once approved by SECAF [Secretary of the Air Force], we will present the business case to OMB and the OSD [Office of the Secretary of Defense] Leasing Panel, followed by a report to Congress. A lease contract will not be signed without approval from all four defense committees and appropriate funding.

Info not yet made public:

The preliminary lease arrangement passes the OMB business case analysis by a slim margin and will save money compared to buying. We are currently running sensitivity analyses to prepare for – and ensure the deal can stand up to – criticism similar to that seen with the 737 deal. We are actively engaging OMB to get their buy-in on the analysis -- a critical ally needed to defend the lease. I expect they will support the analysis, but will balk at supporting our need to escape funding termination liability (peaks at [REDACTED] in FY07; will need Congressional language to overcome). OMB has also stated they believe a tanker is not a commercial product (a key test for an operating lease), but if the business case holds, I don't think OMB will make this issue a deal-killer.

b(5) - OSD Redaction

On August 28, in response to [REDACTED] e-mail, Dr. Sambur sent an e-mail to [REDACTED] with a cc: to Ms. Druyun, Major General Essex, and Brigadier General Bowlds in which he stated:

b(6) - OSD Redaction

Thanks

I assume you resolved the residual value issue from this update?

Should we pulse the SASC [Senate Armed Services Committee] staffers on the termination liability issue?

On August 28, in response to Dr. Sambur's e-mail, [REDACTED] sent an e-mail to Major General Essex in which he stated:

Sir,

Residual value issue of rebating resale profit to the gov't is still in OMB's [Office of Management and Budget] hands. They've never seen anything like it before, and after 2 weeks of chewing on it, have not vetoed the concept. However, when I spoke with Rob Goldberg today, he cautioned me that 767 is so political that his input is only advice –

b(5) - OSD Redaction

[REDACTED]

I defer to Mrs. Druyun on the question of talking to SASC [Senate Armed Services Committee] staffers.

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\*Removed for reason stated in the initial asterisked footnote. (The reference is also on page 178.)

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**September 2002.** On September 4, Mr. William C. Bodie, Special Assistant to the Secretary of the Air Force sent an e-mail to Dr. Roche discussing a *Defense Week Daily Update*: "EADS [European Aeronautic Defence and Space Company]: Our Tanker Offer Cost Less Than Boeing's." In the e-mail, Mr. Bodie stated:

We don't have to turn the other cheek, you know. I'm ready to tell the truth about Airbus's boom, footprint, and financial shortcoming. But maybe we should sleep on it.

On September 4, 2002, in response to Mr. William C. Bodie's e-mail, Dr. Roche sent an e-mail to Mr. William C. Bodie in which he stated:

No, Sir, save it and blow him away. He admits that they were not technically qualified! And, we keep their record of bribes as our trump card! Jim

On September 4, 2002, Mr. William C. Bodie sent an e-mail to Dr. Roche in which he stated:

Hope [redacted] enjoyed it [Defense Week Daily Update: 'EADS: Our Tanker Offer Cost Less Than Boeing's']. I wonder if . . . mind is supple enough to grasp what we're trying to do. I know Rumsfeld's isn't.

b(6) - OSD Redaction

On September 4, 2002, in response to Mr. William C. Bodie's e-mail, Dr. Roche sent an e-mail to Mr. William C. Bodie in which he stated:

Go to sleep! Tomorrow is another day in the minefield. Jim

On September 5, 2002, Ms. Druyun sent an e-mail to Dr. Roche in which she stated:

I read with disgust the article on Airbus tankers from the new EADS [European Aeronautic Defence and Space Company] CEO [Chief Executive Officer] of North America. What BS [sic] ..... should not have been surprised at the slime ..... his day of reckoning will come hopefully.

On September 5, 2002, in response to Ms. Druyun's e-mail, Dr. Roche sent an e-mail to Ms. Druyun in which he stated:

Oy. I agree. I had hoped you would have stayed and tortured him slowly over the next few years until EADS [European Aeronautic Defence and Space Company] got rid of him! Jim.

On September 11, 2002, Dr. Sambur sent an e-mail to Dr. Roche in which he stated:

Boss  
I kicked off the effort to establish a 'need' justification for the tankers. Hope to have a conceptual framework ready by the end of the week. Spoke to Robin [Cleveland] after the meeting to tell her that the economic justification is not a slam dunk for either position (purchase or lease). It is more a push and a slight change in the interest rates can flip the analysis. At the end of the day, we have to prove that there is a TRUE need and that there are other advantages to leasing (earlier



delivery, affordability, etc) that make it a good business deal. It is going to be a tough sell given the other factors such as liability and indemnification.

Marv

On September 11, 2002, [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) sent an e-mail to Major General Bill Essex with a cc: to [REDACTED], Chief, Mobility Division, Office of the Air Force Director of Global Reach Programs; [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] Mobility Division, Office of the Air Force Director of Global Reach Programs; and [REDACTED] Mobility Division, Office of the Air Force Director of Global Reach Programs. In the e-mail, [REDACTED] stated that:

Sir,

Proposed message is below. I think we are on the hook to contact AMC [Air Mobility Command], FM [Office of the Assistant Secretary (Financial Management and Comptroller)], AFSAA [Air Force Studies and Analysis Agency] and [REDACTED] at Rand [REDACTED] Mr. Dunn was to contact AFMC/CC [Air Force Materiel Command], Aging Aircraft SPO [System Program Office], 135 SPO, and Boeing authors of ESLS [Economic Service Life Study].

b(6) - OSD Redaction

Today the Office of Management and Budget met with the SECAF [Secretary of the Air Force], Dr. Sambur, and Lt Gen [Lieutenant General] Zettler [Deputy Chief of Staff for Installations and Logistics] regarding air refueling tanker recapitalization. OMB [Office of Management and Budget] presented their analysis of the KC-135 costs and service life projections concluding that there is no requirement to recapitalize now, or in the foreseeable future. OMB's principle source of data was the Feb 2001 KC-135 Economic Service Life Study (ESLS) for historical data/future projections and Air Force SORTS [Status of Resources and Training System] Database for mission capable rates.

SECAF has committed to work with OMB to identify a sensible replacement plan for the KC-135 aircraft. To accomplish this, the USAF [U.S. Air Force] must provide a compelling case to OMB for recapitalization. SECAF has committed to providing the case by next Thursday, 19 Sep [September] 02.

Need your support to make this happen. SAF/AQ [Assistant Secretary of the Air Force (Acquisition)] and AF/LG are establishing an ad hoc team to support this quick turn effort, and will kick it off this Friday, 13 Sep 02 at 0800 in the 14th floor conference room (SAF/AQQ) 1500 Wilson Blvd, Arlington, VA 20330. We need you to send your top expert on KC-135 supportability and service life/recapitalization to this meeting with the intention that they will work non-stop through next Thursday the 19th.

Specific task at hand is to explain why the USAF believes the ESLS was too optimistic and provide data to support this claim. Additionally, the team must explain and focus on what has changed in operations and maintenance since Feb 2001. All must be supported by cold hard facts.

Please assure your expert knows of and has immediate access to all of the documentary evidence the team must have to build the case SECAF has promised.

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SAF/AQ POCs [points of contact] for this effort are [REDACTED] and [REDACTED], SAF/AQQM. They can be reached at DSN 425 [REDACTED]. b(6) - OSD Redaction

On September 18, 2002, Mr. Bob Gower at Boeing sent an e-mail to Mr. Jim Albaugh at Boeing with a cc: to Mr. John B. Sams, Jr.; Mr. Gerald Daniels; Mr. Andrew K. Ellis; Mr. Jerry A. Fergeson; Mr. John P. Antonio; Mr. E. David Spong; Mr. Howard E. Chambers; Mr. George K. Muellner; Mr. Shephard W. Hill; and Mr. Rudy F. De Leon at Boeing. In the e-mail, Mr. Gower stated that:

Jim,

**I understand you have near term meetings with Marvin Sambur and wanted to relay a conversation John Sams and I had with him . . . . He indicated that the USAF [U.S. Air Force] is desperately looking for the rationale for why the USAF should pursue the 767 Tanker NOW. The briefing his staff had put together on the Economic Service Life Study did not meet his needs. [Emphasis added.]**

The information he had been dealing with was purely financial and he did not have the rationale from the requirements perspective. The points he had his aid capture were the following:

- 1) The USAF requirement is prior to 9/11 was for 607 KC-135R equivalents. The availability is declining now and over time. This creates a gap now which will increase over time.
- 2) The KC-135s have been grounded in the past and this could occur again. These type of unknown aging aircraft issues are not addressed in the aging aircraft analysis. They were assumptioned [sic] out since they could not be quantified. All tanker and airlift aircraft have been grounded at some point as they aged.
- 3) The reason this has not appeared in the POM [Program Objectives Memorandum] before is because you can only request those items that fit within your given budget. Therefore the USAF could not ask for these while they modernized their fighter fleet and their mobility fleet.
- 4) Aside from the risk of grounding they also face a financial cliff. With the need for 607 aircraft they need to start now to be able to modernize. At 20 aircraft per year it will take 30 years to replace the fleet. The average of the tanker fleet at the end of the 100 KC-767s will still be 43 years.

Sambur is looking for the compelling reason the administration should do this now rather than push off to a future administration.

It was clear he was looking to find a path forward. In the past week the number of people in USAF pushing for the lease has expanded.

Hope this helps,

Bob Gower

P.S. Marv was impressed by John Sams and even wrote down several quotes from John he wanted to use going forward.

On September 20, 2002, Mr. Rudy F. De Leon at Boeing sent an e-mail to Mr. Jim Albaugh, Mr. Douglas G. Bain, Mr. James A. Bell, Mr. Scott E. Carson, Mr. Phillip M. Condit, Mr. Gerald E. Daniels, himself, Mr. John B. Hayhurst, Mr. James C. Johnson, Mr. Paul Kinscherff, Ms. Laurette T. Koellner, Ms. Judith Muhlberg, Mr. Alan Mulally, Mr. James F. Palmer, Mr. Thomas R. Pickering, Mr. Michael M. Sears, Mr. Walter E. Skowronski, Ms. Bonnie W. Soodik, Mr. Harry C. Stonecipher, and Mr. David O. Swain with a cc: to Mr. Emory w.