

## UPDATES: Agility Replaced, F-35 Ramp-Up Flattened

Written by Administrator  
Tuesday, 20 April 2010 00:00

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A couple of quick updates to stories we have been following.

### Agility Replaced

First, we recently [posted an article](#) on Kuwait-based Agility (formerly Public Warehousing Corporation), the Mid-East's largest logistics firm—supplier of food

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services to U.S. troops based in Jordan, Kuwait, and Iraq. We told you about allegations of fraud and violations of the False Statements Act and False Claims Act—among other allegations. Although charges were originally unsealed in November, 2009, reports had surfaced of “delays” in the case, as the parties apparently attempted to settle charges out of court. That effort did not appear to be progressing well, as we reported that the Department of Justice prosecutors had “expanded their case” by filing charges against two of Agility’s subsidiaries.

Agility [published](#) a release upon learning of the expanded charges, calling them “regrettable”. Yes indeed. Agility would indeed regret its inability to settle the charges—because just three days later, on April 15, 2010, news agencies reported that Agility was being “replaced” by the Defense Logistics Agency (DLA) as its food service provider. For example, Reuters [reported](#) that Agility had announced it was being replaced, but that DLA had decided to have Agility continue to provide services for another six months “to guarantee continuity of supplies.”

The new food service provider was not disclosed by either Reuters or Agility. However, we subsequently [learned](#) that DLA has awarded the \$2.2 billion follow-on contract to Dubai-based [ANHAM FZCO](#)

. The new contractor published a [press release](#), in which it said “It is with great gratitude and a compelling sense of duty that all at ANHAM welcome the award to expand our support for those serving in the Middle East.”

### F-35 Ramp-Up Flattened

Second, we have been following the “[rough ride](#)” of the F-35 Lightning II Joint Strike Fighter (JSF) for some time. Our [original F-35 article](#) was the most popular article on this site (until recently overtaken by our article on

[Senate hearings](#) regarding DCAA audit quality failures). In that original F-35 article, we explored whether Lockheed Martin, the aircraft’s prime contractor, could ramp-up production to 20 aircraft per month or 240 planes per year (

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one per working day), producing three variants on one production line. We were dubious, but willing to give LockMart the benefit of the doubt. We concluded—

To sum up, the JSF program team has set for itself an incredibly ambitious goal of producing a finished aircraft every single working day. It's set the goal despite early design and supply chain problems, and despite almost universal history among other aircraft programs that says it can't be done. But at least the team has identified some worthy companies to benchmark against and learn lessons from. The question remains, however, whether the program team can forget the defense industry's historical program management practices – that don't work well in the 21<sup>st</sup> century – and deploy a truly innovative approach that breaks new ground. If they can, then they may have a chance.

We would note that the F-35 continues to receive press. In fact, it's a rare week that doesn't have some story—either positive or negative—about the JSF program. Several reports have focused on

even more program cost growth. For example, this [BusinessWeek/Bloomberg](#) article reports that an additional \$51 billion in cost growth—over and above the \$328 billion price just reported to Congress on April 1, 2010—may soon be reported, once the Pentagon has completed its in-process JET II analysis. Of course, LockMart disputes the “worst-case scenario” program value.

On the other hand, this [DODBuzz.com article](#) reports on Senate hearings in which testimony asserted that the JSF production has “turned the corner” and “that the most recent restructuring of the JSF program will deliver an aircraft without further cost increases or delays in delivery.” We note this statement buried in the middle of the article—

‘We’ve turned the corner on production line delays,’ said Air Force Lt.

Gen. Mark Shackelford, the service's top buyer, who expects to take delivery of the first test aircraft this year. The jump in the JSF's price tag and the delays were due primarily to small design changes, which while minor, rippled through the production line causing excessive

churn and stress.

That production line is now well on the way to

maturing,

he said. He declared the F-35 airframe itself as solid; although the plane's software package has proven a bit more problematic.

We could devote an entire article to that one paragraph, discussing risk management, supply chain management, change management, software management, and program management. But we'll refrain and simply note that there's a Masters' thesis to be mined in that motherlode

Finally, on April 16, 2010, InsideDefense.com reported to its subscribers that the Air Force had halted plans to increase JSF production to 110 aircraft per year, and has decided to “top-out” its purchases at 80 planes per year, starting in GFY 2016. The article quotes Air Force Chief of Staff General Norton Schwartz as saying, “As the program continues to progress, we will analyze production capacity and available funding for potential production rate adjustment beyond the 80 aircraft per year rate reflected in the current program.”

The article further notes that Lockheed Martin stated “that once its ... assembly line reaches its optimal production rate in 2016, it could build as many as 230 jets per year”—so LockMart is ready “to build more jets if requested.”

It may not matter what Lockheed Martin's throughput is, or will be, if its No.1 customer (the USAF) doesn't have the funding to purchase any more than 80 aircraft per year. It will be an interesting exercise to calculate how much F-35 program cost growth will be driven—or how much LockMart will claim was driven—by lost economies of scale if production peaks at 80 jets per year versus 240 (or 230, depending on the article). This situation may degenerate into a “he said/she said” finger-pointing exercise, where the Air Force says that LockMart could only produce 80 aircraft per year and any lost volume savings stemmed from its own inadequacies, while LockMart accuses the Air Force of delay and/or disruption because its lack of available funding kept LockMart from reaching available production efficiencies.



We predict a continued rough-ride for the JSF program—as well as smooth seas and fair winds for the attorneys involved in the nearly inevitable litigation.