

L-3 Unit Suspended, Loses \$5 Billion Contract to Lockheed Martin

Written by Administrator
Thursday, 24 June 2010 00:07

On June 21, 2010, the Department of Defense announced that Lockheed Martin had been awarded an ID/IQ contract potentially worth as much as \$5 billion. Here is the official DOD announcement—

Lockheed Martin Corp., Lockheed Martin Information Systems & Global Services, Gaithersburg, Md., is being awarded a potential \$5,000,000,000, indefinite-delivery/indefinite-quantity contract with mixed payment provisions including firm-fixed-price, incentive arrangements and cost-reimbursable arrangements for contractor logistics support services in support of US SOCOM worldwide. The work will be performed at Special Operations Forces Support Activity in Lexington, Ky., and other locations across the globe and is expected to have a period of performance from March 2, 2009, to March 1, 2018.

This contract was awarded through full and open competition.

USSOCOM is the contracting activity (H92254-09-D-0001).

This contract was previously awarded in March 2009, but was terminated due to protest activity in June 2009.

The 2009 contract is now being reinstated to meet urgent operational requirements.

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What the announcement didn't say was that on June 9, 2010, L-3 Communications announced that its business unit that had performed the SOCOM logistics support work for years had been suspended from receiving further Federal contract awards based on an ongoing investigation into "inappropriate use of an email system" by L-3 employees. The official 8-K SEC filing to that effect can be found [here](#). It said (in part)—

L-3 Communications Corporation received notice that its Special Support Programs Division (L-3 SSPD) [aka L-3 JOG] has been temporarily suspended from receiving any new contracts or orders from U.S. Federal Government agencies, including under its Special Operations Forces Support Activity (SOFSFA) contract. The notice of temporary suspension was received from the Office of the Deputy General Counsel of the U.S. Air Force on June 4, 2010 and relates to an on-going governmental investigation of L-3 SSPD concerning the alleged inappropriate use of an e-mail system by L-3 SSPD employees. ... The temporary suspension will remain in effect until lifted at the discretion of the Air Force.

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The Air Force has also notified L-3 that it is considering whether a suspension of L-3 Communications Integrated Systems L.P., as the parent of L-3 SSPD, is also warranted.

What the L-3 filing didn't say was that it had lost the program recompetes and, in March 2009, it had protested award of the contract to Lockheed Martin in the Government Accountability Office (GAO) protest forum. [This](#) brief Reuters article summarized the situation—

L-3 Communications Holdings Inc has filed a formal challenge to a potential nine-year, \$5-billion U.S. Special Operations Command logistics deal awarded to Lockheed Martin Corp last week. L-3, which holds the current contract, protested on March 10 to the Government Accountability Office, an umpire of such disputed federal awards. ... The Defense Department said on March 3 that Lockheed's Information Systems & Global Services business unit based in Gaithersburg, Maryland, was receiving the contract for logistics services in support of U.S. Special Operations Command forces worldwide.

The contract was expected to run through March 1, 2018. It said it had been

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awarded through full and open competition. InsideDefense.com, an online trade publication that was the first to report the protest, said L-3's loss to Lockheed Martin 'may have both a psychological and financial impact as it was one of LLL's largest, best recognized programs.'

What the Reuters article didn't say was that L-3 had been recording roughly \$450 million in annual revenue from its SOCOM support contract. This amount represented about two to three percent of its total annual sales and bottom-line earnings. Loss of the contract will require L-3 to lower its 2010 earnings forecast. Oops.

According to [this article](#) (which quotes another Reuters report)—

The June 3 memo from the Office of the Deputy General Counsel of the Air

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Force said the U.S. Special Operations Command used a third-party vendor to audit email applications used at the command that were managed by L-3. The audit showed the L-3 unit 'purposefully and intentionally' monitored emails of employees of L-3, workers with other contractors and U.S. government employees, it said. The L-3 unit arranged to have specific emails copied to and kept on an L-3 monitored database, then released and sent to recipients in such a manner that neither the government, nor those whose emails were monitored, would know communications had been copied, according to the memo. '

L-3

JOG says it used the SOCOM network willfully and deliberately in an attempt to discover whether its employees had shared its information with another contractor,' it said.

Moreover, the article continued—

The [Air Force] memo also said L-3 obtained information tied to a competition for follow-on contract work and collected material that involved a bid protest to which the company was a party. The Air Force memo did not identify the protest, but L-3 in March 2009 filed a protest with the Government Accountability office against a nine-year, \$5-billion logistics deal awarded to Lockheed Martin Corp by Special Operations Command. GAO, the congressional agency that rules on contract protests, said it dismissed the matter a month later after the command

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said it would reevaluate the submitted proposals. The new competition is still under way, and L-3's contract continues through the first quarter of 2011. Lockheed declined comment.

The Air Force memo said there was 'adequate evidence' to establish that L-3 committed 'criminal offenses in connection with obtaining, attempting to obtain or performing a public contract or subcontract' and added there was 'adequate evidence' that L-3 'committed theft.'

This article from [The Wall Street Journal](#) ties the SOCOM award directly to the L-3 suspension, stating—

With orders building up, Special Operations Command said it had to reinstate the

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contract again to Lockheed. 'U.S. SOCOM must ensure Special Operations Forces have continuous logistics support as they deploy, prepare to deploy, conduct combat operations, redeploy and refit,' said U.S. Air Force Major Wes Ticer, the agency's spokesman. 'It would be very difficult to ensure continuous support to the warfighter from L-3 while the suspension is in place.'

We have noted [before](#) that investing in an effective compliance program makes good business sense. This L-3 compliance debacle is Lockheed Martin's win, and provides an object lesson on the costs associated with compliance failure.