



U.S. Department of Justice

UNICOR

Federal Prison Industries, Inc.

Washington, DC 20534

June 19, 2003

Dennis DeGastano
Deputy Associate Administrator
for Research and Acquisitions
Federal Aviation Administration
800 Independence Ave., SW., Rm. 1019
Washington, D.C. 20591

Dear Dennis:

This is in follow-up to our meetings over the past few weeks regarding the FAA office furniture requirement. As a customer goodwill gesture, I have decided that FPI will relinquish its right to participate in this project. There are several issues surrounding this project that influenced my decision, which I want to address further.

FPI places a very high priority on providing a first class, comprehensive office furniture program to its federal customers. The fact that the domestic office furniture market is dominated by a few multi-billion dollar, multi-national companies (who control approximately 2/3 of the entire market, both commercially and within the federal government), is certainly a competitive disadvantage for FPI. These companies can offer to federal agencies highly respected products through an extensive infrastructure of dealer networks, and sales and marketing programs funded mostly by their commercial market sales (of these large companies, none derives more than 10 percent of their sales from the federal government).

FPI relies exclusively on the federal market for its furniture sales, but still provides less than 20 percent of the furniture purchased by federal agencies. In order to offer our federal customers great value, FPI teams with outstanding but smaller furniture manufacturers who have competed for the opportunity to provide federal customers state of the art products and services. Just this week some of our partners' products were honored at NeoCon, the largest national office furniture show. These industry partners also passionately support FPI's fundamental mission of teaching inmates meaningful, marketable work skills and collaborate with us in implementing

our strategy of labor-intensive manufacturing, despite the fact that this results in more value added by FPI and less profit for them.

The recent controversy about the FAA furniture requirement arose out of the implementation of the FPI Board of Directors resolution on customer requests for a waiver of FPI's mandatory source on the basis of a price differential. Specifically, the Board's resolution requires that, "FPI grant waivers in all cases where the private sector provides a lower price for a comparable product that FPI does not meet." In order for FPI to determine both the comparability of its product and whether to meet the private sector price, the Board implemented procedures which required that federal agencies submit the private sector vendor's best and final binding quote in its entirety to FPI. To determine this vendor price, FAA's agent on this project, GSA, issued a request for quotes on April 10, with a response deadline four business days later on April 16, 2003. Although the price derived from this process was based on "typicals" instead of a best and final binding quote for a specific design, and was, therefore, non-compliant with the Board's procedures, FPI accepted this submission as the benchmark against which it was obligated to determine whether to match the offered price.

The submission included "typical" drawings and prices for the products offered by the "best value" vendor, Steelcase. It has been alleged that forwarding this information to FPI was somehow improper. This is simply not true. First, as indicated, the drawings were merely "typicals", which every company makes available to customers from time to time. They were not unique to the FAA project and several were dated well before the RFQ was issued. Most of these "typicals" are public documents, available on the GSA or the Steelcase websites.

The price information included the name, style or feature of the individual products. There was nothing in this part of the submission that would not be minimally required for FPI to identify comparable FPI products, and determine whether to meet the price, in compliance with the Board's resolution. I believe that any objective review of this situation would conclude that neither was the information submitted to FPI proprietary, by any commonly accepted definition of the word, nor did FPI engage in any impropriety.

Nonetheless, this case was somewhat unique in that it was the first instance in which the Board's new resolution was applied. Above and beyond the baseless aforementioned allegations, there clearly was misunderstanding and confusion among many about how the process was to work. (The Board is revising the procedures to preclude any future misunderstanding about the application of their resolution.) In light of the confusion, despite the fact that FPI had already been awarded this contract by FAA, I indicated in our initial meeting that FPI was willing to discuss a "sharing arrangement" on this project between FPI and Steelcase. In this regard, I very much appreciate the professionalism and hard work displayed in the proposals you and your staff presented for our consideration this week.

In further evaluation of a sharing arrangement for this particular project, it is my belief that this would likely result in an unsatisfactory outcome for FAA as the customer. You indicated this week, that FAA would consider price adjustments by both FPI and Steelcase due to changes in scope and product mix. Though entirely legitimate, this would only further exacerbate the situation.

Regarding the project price, in my experience, FAA is inevitably going to have to pay more for this project than FPI quoted because, as is common practice, prices will be adjusted once actual plans are developed from "typicals." Further, FPI's quote included full project management services; presuming that GSA continues to serve as FAA's project manager for the Steelcase installation, GSA's project management fee of 4 percent will be in addition to the product cost.

The combination of these inevitabilities suggests to me that both FPI and FAA are best served if FPI relinquishes the contract it was properly awarded. As we discussed, although unique, this situation may be most analogous to a "termination for convenience" and I would appreciate any consideration FAA would give to reimbursing FPI for the contract costs we incurred in preparing our designs and submissions.

Dennis, I regret any inconvenience this situation may have caused FAA. I look forward to a future opportunity for FPI to provide one or more of our great products and services in support

of FAA's mission. Please feel free to contact me at any time if you have any questions or if I may provide any further information.

Sincerely,



Steve Schwalb
Chief Operating Officer

cc: FBI Board of Directors