<u>Sample Agreement</u>

I. **Background:** This draft agreement sets forth the terms and conditions for a partnership between Federal Prison Industries, Inc. (FPI) and *(Name of Firm)* to begin manufacturing *(description of product)*. Under this agreement, *(Name of Firm)* will assist FPI in the startup of the manufacturing facility, supply necessary raw materials, and provide ongoing technical assistance through the startup and initial operation of the manufacturing facility. The total duration of this agreement is five years after award.

II. **Factory Setup:** In the first 4-6 months of this agreement, *(Name of Firm)* will perform the following services to setup a new manufacturing facility for FPI: purchase and install *(list of required equipment)*. This equipment will be transferred to FPI by a bill of sale immediately after it is purchased by *(Name of Firm)*. *(Name of Firm)* will be responsible for shipping the equipment to FPI's facility. FPI will take responsibility for the equipment after it has been accepted by FPI staff.

III. **Equipment Financing:**

A. **Financing Terms:** *(Name of Firm)* agrees to finance the equipment listed in the "Factory Setup" at the rate of $0.371 per piece ($144,000.00 equipment value, five year term, 10.5% interest rate) for the first 500,000 pieces produced during the term of this contract. *(Name of Firm)* will invoice FPI for finance payments at the same time as the Piece Part Compensation payments.

B. **Early Termination of Contract:**

1. **Minimum Finance Charges:** Should FPI elect to exercise the terms of the Exit Agreement (<u>see</u> Paragraph X) or otherwise terminate this contract for convenience, and FPI has not produced at least 200,000 units under this contract, FPI agrees to either:

(i) Reimburse *(Name of Firm)* for unliquidated finance charges up to the minimum total finance charges of $74,200.00 (equal to 200,000 units at $0.371 per unit) and transfer title to *(Name of Firm)* within a reasonable time after termination. For example, if FPI produced 150,000 units and terminates the contract for convenience, FPI will pay *(Name of Firm)* $18,550.00 at termination for equipment financing ($74,200.00 minimum financing less $55,650.00 in finance payments for 150,000 units).

or (ii) Retain title to the equipment and pay the unliquidated principal amount for the equipment to *(Name of Firm)* in accordance with the Payments clause of the contract (<u>see</u> FAR 52.232-1).

2. **Unliquidated Principal Balance on Equipment:** Should FPI elect to exercise the terms of the Exit Agreement (see Paragraph X) or otherwise terminate this contract for convenience, and FPI has produced between 200,000 units and 500,000 units under this contract, FPI agrees to either

(i) Transfer title of the equipment to *(Name of Firm)* within a reasonable period after termination of the contract. *(Name of Firm)* shall have 180 calendar days after contract termination to remove the equipment from FPI's facility. If *(Name of Firm)* fails to remove the equipment within this 180 day period, FPI may place the equipment in a bonded warehouse and all applicable costs will be borne by *(Name of Firm)*.

or (ii) Retain title to the equipment and reimburse *(Name of Firm)* for the unliquidated principal balance of the equipment (i.e., up to total value of $144,000.00) in accordance with the Payments clause of the contract (see FAR 52.232-1).

C. **End of Contract Term:** If, at the end of the contract term, FPI has not produced 500,000 units under this contract, FPI will reimburse *(Name of Firm)* for any unliquidated finance charges prior to contract closeout. Total finance charges for the equipment provided by *(Name of Firm)* is $185,707.00 (500,000 units x $0.371/unit). For example, if FPI has produced 400,000 units at the end of five years, FPI will reimburse *(Name of Firm)* for $37,100.00 in unliquidated finance payments (unliquidated payments = 100,000 units not produced by FPI x $0.371/unit).

IV. **Targeted Products:** The products to be manufactured under this agreement will be completed in phases: Phase I are products targeted for immediate production; Phase II are additional products identified for manufacturing after Phase I has been successfully implemented; Phase III are additional products that may be identified over the life of this agreement.

Phase I Products: *(List products for immediate production)*
Phase II Products: *(List products for later production)*
Phase III Products: *(List any other products that may be contneplated)*

V. **Piece Part Compensation:** For the purposes of this contract, the terms "unit", "piece", or "part" may be used interchangeably to mean any manufactured product with that is ready for sale to the Federal market (i.e., a product will be considered a "unit", "piece", or "part" at the time it is completed and ready for shipment from FPI's facility). *(Name of Firm)* will be paid $.30 for each finished part that is produced over the life of this contract. This compensation applies only to parts as they are sold to FPI customers as finished goods. *(Name of Firm)* will be paid monthly based upon actual sales of plywood parts.

For the purposes of this contract, a part is “sold” when it has been sold, exchanged, or otherwise transferred or shipped to a third party, including other UNICOR factories.

VI. Cost/Market Data: The contractor agrees to provide necessary cost and/or market data to ensure that the Contracting Officer can demonstrate price reasonableness for all equipment, molds, and raw materials provided by *(Name of Firm)* under this agreement. If *(Name of Firm)* cannot demonstrate price reasonableness in this manner, FPI reserves the right to procure these items without the assistance of *(Name of Firm)*. Additionally, *(Name of Firm)* certifies that all equipment, molds, and raw materials provided to FPI under this agreement are at, or below, current market prices.

VII. Performance Agreement: FPI and *(Name of Firm)* will agree upon a profitability target for each plywood product under this agreement. Should FPI not achieve 50% of the profitability target for a given product, *(Name of Firm)*’s Piece Part Compensation for that product will be waived during the period of nonperformance.

VIII. Profitability Target:

PRODUCT*	ANNUAL EST. QUANTITY	PER UNIT TARGET PROFIT**	TOTAL TARGET PROFIT
(Name of product)	100,000	$3.13	$313,000.00

* Profitability targets for new products will be negotiated and incorporated into this contract via modification.

** Target profit incorporates all applicable costs (equipment, labor, overhead, materials, and contractor’s piece part compensation) associated with implemented this proposal.

IX. Target Timeline:

Week 3	Complete plant layout and finalize equipment specs
Week 5	Obtain approvals from UNICOR; Start mold tooling
Week 7	Order equipment
Week 9	Detail machining standards for existing FPI equipment
Week 10	Develop process flow standards and charts for operation
Week 11	Review standards and charts with FPI management
Week 12	Develop training manuals and quality control standards
Week 13	Order material for first manufacturing run
Week 14	Prepare FPI factory for equipment arrival
Week 18	Ship equipment
Week 20	Equipment transit/erection; Mold and material arrival

Week 21	Hydraulic/generator check-out; Test manufacturing
Week 22	Training/manufacturing startup
Week 24	Begin production

X. **Exit Agreement:** *(Name of Firm)* will agree to take possession of the equipment after two years of operation should FPI decide not to proceed for economic reasons. Except as otherwise provided in this Paragraph X or in Paragraphs III.B or III.C above, FPI will not be responsible for any additional payments of the amortized equipment. FPI must provide *(Name of Firm)* with 120 calendar days written notice of its decision and (Name of Firm) has an additional 60 calendar days to remove the equipment. However, FPI's responsibility to continue making financing payments terminates after the initial 120 day period. If *(Name of Firm)* fails to remove the equipment in a timely fashion, FPI will place the equipment in a bonded warehouse and all applicable costs will be borne by *(Name of Firm)*. This exit agreement does not limit FPI's rights under the terms and conditions of the contract including, but not limited to, Termination for Convenience and Termination for Default.

XI. **Equipment Warranty:** All equipment provided by *(Name of Firm)* under this contract will be subject to standard applicable manufacturer's warranties. *(Name of Firm)* will provide copies of the manufacturers' warranties to FPI upon transfer of title to the equipment. However, *(Name of Firm)* will not provide any additional warranties beyond the applicable manufacturer's warranties.