

STATEMENT BY
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DFS MIDDLE EAST FZE
BEFORE THE
COMMISSION ON WARTIME CONTRACTING IN
IRAQ AND AFGHANISTAN
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Good morning. Co-Chairman Thibault, Co-Chairman Shays and distinguished members of the Commission on Wartime Contracting in Iraq and Afghanistan. Thank you for the opportunity to appear before the Commission to discuss our experiences as a sub-contractor providing vital services in support of our Nations mission in Iraq and Afghanistan. My name is Marc Krens and I serve as the Chief Financial Officer for The Diplomat Group LLC headquartered in Annapolis Maryland.

The Diplomat Group is a privately held, small commercial contractor. We pride ourselves in providing quality and innovative transportation, logistics and rapid construction solutions to our customers. The Diplomat Group has successfully completed thousands of contracts over the past 30 years. Diplomat's ideal market is the austere and difficult locations outside the US where Diplomat has consistently distinguished our performance. We have undertaken projects throughout Asia, Africa, Australia, Europe, North and South America.

DFS Middle East FZE (DFS) was established in 2003 as a wholly owned operation of The Diplomat Group. DFS is based in Dubai, UAE. It was established to specifically target the market in the Middle East and surrounding region. It has not serviced and is not organized to prospectively service US customers within the US. We employ approximately 75 employees providing transportation, freight forwarding and logistics services to commercial, government and NGO sectors. We also specialize in rapid response and disaster relief, as well as emergency services.

DFS Middle East FZE total revenue last fiscal year was approximately \$93 million. During last fiscal year, DFS had provided support to the Transcom's Theater Express Program (as a subcontractor to UTi – Continental Airlines prime contract). The contract was a firm fixed price contract with daily bids and generated approximately \$45 million in gross revenue related to activities in Iraq and Afghanistan. In December 2009, DFS was awarded a subcontract by Fluor (Prime contractor), to support their rotary wing transportation requirements within Afghanistan under LOGCAP IV. This is a fixed unit rate – level of effort contract for 10 months with 4 one year options with an estimated not to exceed value for year 1 of \$55,416,400.00. Operations did not commence until January 2010. The level of effort is based on the tasking of hours flown on our helicopter's which is monitored, reported to our Prime Contractor and reconciled daily. Our Fluor contract was competitively bid.

We have prepared responses to the discussion points provided in the Commissions invitation to testify. My remarks will be brief as directed.

Challenges in complying with prime contractor business systems in a contingency environment

The most significant challenge we face in a contingency environment is the constant change and managing our personnel, relationship with our Prime Contractor and adapting our business systems to the new requirements.

From the onset of our Fluor Contract, we partnered with Fluor's In-Country Team to develop the required business systems for accounting, reporting, and invoicing. With our history of performing rapid response and emergent need requirements in hostile and austere environments, DFS brought the necessary experience and flexibility to develop the applicable business systems to support the requirements of Fluor.

Challenges in complying with US Government contracting policies in a contingency environment

As a small company with limited resources both in terms of personnel and finances, we find ourselves focusing a significant percentage of our time on compliance issues. While we acknowledge that the applicable regulations under the contingency contracting rules have raised acquisition thresholds for procurements, a one size fits all approach may not be providing the best result for the mission at hand. One thought is to use the NAICS structure to identify by business class contingency environment thresholds that will allow small businesses additional relief and opportunity.

Summary and explanation of any significant and ongoing oversight issues

Our relationship with our Prime Contractor remains generally positive. Currently we do not have outstanding cost issues or quality deficiency reports.

Process to assure that business and accounting systems can be relied upon

Our contract with Fluor is fixed unit rate – level of effort contract. Working with Fluor we have established a daily reporting process that has our team reconciling daily the number of hours flown (level of effort).

Process for hiring and vetting employees

With our history of performance in contingency environments, DFS maintains a database of personnel who have successfully performed on prior contracts. These individuals are vetted with diverse skill sets. We worked with Fluor's Team to ensure that the process met the requirements of LOGCAP IV.

Ethics training and company compliance programs to ensure no ethics or legal violations

Ethical operations and compliance with legal requirements is a basic foundation of The Diplomat Group. We maintain suitable internal controls, including our Ethics Policy, and are small enough to understand and monitor our personnel's actions and performance. Due to our size, our Senior Management Team is hands-on in our oversight of our contract and our personnel.

Extent of lower level subcontractors, uses of the lower level subcontractors and cost of lower level subcontractors

Supporting our contract with Fluor is one primary subcontractor. This subcontractor has a past performance record of successfully supporting other prime and lower tiered U.S. Government contractors and subcontractors, is CARB certified and has the requisite in-country experience. Our contract with this sub is a fixed unit rate level of effort – hours flow. We interact with this subcontractor daily and at various levels within their organization, including their CEO, and keep Fluor closely informed and integrally involved in our oversight of this subcontractor.

Improvement opportunities – your view of the top three challenges

As mentioned in the response to previous questions, our business model of partnering with the prime contractor has allowed our Team to address issues that have and will arise during an ever changing contingency environment.

Top 3 challenges:

- 1) Managing change.
- 2) Government oversight is challenged to take into account the unique circumstances in a war zone.
- 3) Time allocation – in our small business we wear many hats, the time and effort to support the contracting requirements places a strain on the other operations of the Organization.

On behalf of DFS Middle East, our owner and employees, we are proud to support the efforts of our Government and its coalition partners operating in Iraq and Afghanistan and throughout the world.

Thank you again for the opportunity to participate. I look forward to your comments, questions and dialogue about our experiences.