

May 27 2009

Mr. Jim Aguila
Air Resources Board
Stationary Source Division
Substance Evaluation Section
P.O. Box 2815
Sacramento, CA 95812

Dear Jim:

I am planning and making preparations to sell off our current floor models of finished goods with composite wood products that are **PRE-PHASE I**. Our inventory of floor samples today is approximately \$8,000,000.00, so we have about thirteen months to accomplish this sell off (by June 30th, 2010). If we succeed, we will then replace the **PRE-PHASE I** floor samples with **PHASE I** floor samples, again approximately \$8,000,000.00.

Then by June 30, 2011 we must sell off all finished goods using **PHASE I** plywood, approximately \$2,000,000.00 and replace the \$2,000,000.00 with **PHASE II** plywood.

Then by June 30, 2012 we must sell off all finished goods using **PHASE I** MDF and particle board, approximately \$6,000,000.00 and replace the \$6,000,000.00 with **PHASE II** MFD and particle board.

The above scenario is assuming that 100% of floor samples and their back up stock in our distribution centers will all be sold before the three specific dates mentioned above (June 30, 2010, 2011 and 2012).

In my opinion, with some forty plus years experience in the retail furniture business, this schedule will be extremely difficult and expensive to accomplish for the following reasons:

Retail furniture stores buy goods on a variable schedule depending on previous sales history, current and predicted economic activity, advertising and planned promotions and availability of goods from factories. In our case, today the availability of goods from the factories is just starting for **PHASE I**. Of our sixty factories, only three now have **PHASE II** available. This is because of the late start to get the proper raw materials from the mills. Remember as of 12/15/08 there were only two third party certifiers for Chinese mills producing particle board. Particle board comprises 70-80% of the furniture we purchase from China, and there were only two mills (Asia Décor Woods Ltd, and Dare Woods, wood based panel group) that could deliver **PHASE I** particle board in mid-December, 2008. The law ACTM-93120 went into effect two weeks later, January 1st, 2009. Please be aware of this documented period (see attached) when we faced the quandary of being responsible to proceed and obey the new law, but the authors of said law did not allow or give us the means to abide by this regulation in time. The ARB set up this system but was unable to approve the infrastructure (TPC's or mills) to fulfill in a reasonable time, what they themselves were demanding from furniture retailers in California.

Because of these gaps of time in TPC's and approved mills, the furniture industry in California was squeezed into the current situation of trying to catch up to be legal. The only factor that caused this was the ARB itself. Once the ARB could not produce a list of third party certified mills in reasonable time, there was no corresponding change in the implementation dates of the law.

Now, I am writing about the problems of replacing \$8,000,000.00 of floor samples twice. If CARB had taken the time to try and see this situation from the furniture manufacturer and retailers view and by enlightening themselves about how international business is conducted, then perhaps we would be able to purchase **PHASE II** today, but we cannot because of the time constraints CARB has enforced. The mills and factories have just now been able to ship **PHASE I**, in the continuous flow necessary to maintain a healthy retail operation in furniture.

After the background of today's situation of floor sample sell off's twice in two years, I am asking for some relief and consideration to allow for one sell off of today's floor samples of \$8,000,000.00 for our company. Allow **PRE-PHASE I** stock for floor samples until **Phase II** is available, then sell off all floor models once and convert **PRE-PHASE I** directly to **Phase II** when available.

Please also consider the real world retail scenario when over 1,000 retail furniture stores (or all of the furniture stores in California), all try to sell off their floor samples at once as the June 30, 2010 date soon approaches. This is unprecedented, but to have to go through this exercise twice in two years is clearly, not in the interest of retail. Can we be sure that great harm will result from allowing floor samples to be given another year or two remaining on our floor? Even the probable off gassing of formaldehyde from these floor samples will continue over time and the danger to the California consumer presented by these floor samples will be negligible.

After accepting the rulings of the ARB and trying to explain and educate all of our suppliers around the world, working with the TPC's and coordinating the mill and factories about the sell through dates and literally holding private seminars with factories who do not understand the ATCM requirements. Giving input for an explanation of exempt products, distributing hundreds of emails to help clarify the laws of California, I know we have helped the ARB in bringing to California businesses that now abide by these new regulations. I now ask the ARB to consider our plight. We are not asking to change the law, just asking to make an adjustment that will not put any California consumer in danger.

Selling eight million dollars of floor samples is costly and part of the law, but doing this twice can be avoided, if reasonable prudent decisions can be enacted by the ARB to help our businesses.

DATES TODAY MAY 27, 2009	INVENTORY \$ FLOORS	PHASES	LAST DAY TO SELL
	\$8M Non-carb (PRE- PHASE I)	Non-carb MDF, ply, particle board	June 30, 2010
Start P-I July 1, 2010	\$0	Phase 2 plywood	June 30, 2011
	\$8M PHASE I	Phase I MDF, particle board	June 30, 2012
Start P-II plywood July 1, 2011	\$0 \$8M PHASE I	Phase II Plywood	June 30, 2012
Start P II MFD, particle board July 1, 2012		Phase II MDF, particle board	June 30, 2012.

In today's retail environment, with sales of furniture at a level so depressed, with stores struggling to stay in business, with stores reducing inventory levels, reducing staff, cut backs, layoffs and store closings increasing every day, the future prospects for retailers today is bleak. On the supply side, factories in the U.S. and in the foreign countries we deal with are cutting production, cancelling orders for raw materials, consolidating operations and generally shrinking and many closing down production facilities. In California sales of furniture are down by 30-50%, many stores closing and some manufacturers and distributors moving out of state in order to survive the economic downturn coupled with the new regulations that in the short term are inhibiting and restricting the efforts to maintain operations. Our inventories have been cut back in 2008-2009 and future orders are projected to be 35-50% lower for the balance of 2009 vs. 2008 figures.

In other related industries like plywood both domestic and imported, the conditions are even worse. The plywood industry faces the same economic downturn since new home construction is at a standstill and inventories of plywood are stagnant because of lack of demand. This fact coupled with a sell through provision that will expire for non-CARB certified plywood on May 31, 2009 leaves that industry on the verge of bankruptcy and even forced liquidation is not possible without an extension of CARB's sell through provisions.

No one could predict these economic conditions when CARB drafted the ATCM. Could CARB have know in 2007 that there would be a boycott of non-certified stock of plywood, where dealers are demanding PHASE I or PHASE II plywood now in anticipation of consumers demanding the lowest formaldehyde levels available? Could CARB have anticipated that on May 20, 2009 the plywood industry would be holding inventory of uncertified stock in the amount of \$250,000,000?

I fear that the same scenario being played out today with plywood will soon be the dilemma that our furniture industry will be faced with as the June 30, 2010 deadline approaches. When all retail furniture stores in California will be forced to sell off all [PRE-CARB PHASE I](#) inventories of stock and floor samples of furniture. The difference here is the size of the dilemma. Furniture being a much larger volume than plywood in California, a total of 8 billion dollars per year of retail sales.

The CARB regulations for formaldehyde are not the issue here; we all want the lowest possible levels in consumer's homes. It is the method of implementation of these regulations with a time-table that did not anticipate the economic conditions in California today and because of these conditions we need an extension of the sell through dates and as mentioned above, I have suggested a solution for the floor sample problem for our 22 retail furniture stores and for the sake of all in our furniture industry through out the state of California. Please reply to my recommendations.

Sincerely,

Bob Schoenfeld
Quality Control Manager
Scandinavian Designs

cc: Brent Takemoto