FPI BOARD OF DIRECTORS MEETING
April 14, 2011
USP LEAVENWORTH

A meeting of the Federal Prison Industries (FPI) Board of Directors was held at USP Leavenworth, Kansas on April 14, 2011.

IN ATTENDANCE: David Spears, Chairman
Don Elliott, Vice Chairman
Lee Lofthus, Member (participated via video conf.)
Audrey Roberts, Member
Frank Gale, Member

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Paul Laird, Chief Operating Officer, FPI
Phil Sibal, Senior Deputy Assistant Director
John Shook, Associate Warden IE&VT
Participating via video conference:
Harley Lappin, Director, Bureau of Prisons
Cathy Hawkins, FPI Controller
Marianne Cantwell, General Counsel
Robert Grieser, Chief, Marketing, Research & Corporate Support
Julie Rozier, Executive Assistant

Chairman Spears called the meeting to order at 9:00 a.m. He thanked Warden Hollingsworth and her staff for the hospitality expressed during this visit. Chairman Spears then expressed his appreciation for the coordination and tour of the old cell block as well as the barracks located nearby.

Chairman Spears indicated that it was with sadness that we share this last meeting and report from Director Lappin. Chairman Spears and all of the members thanked the Director for his leadership as a Public Servant and wished him well in his retirement.

I. Approval of the January 19, 2011 Meeting Minutes

The Board of Directors considered the draft minutes from its January 19, 2011 meeting. The Board voted unanimously to accept the minutes as presented.

The Board discussed the date and location of its next meeting. It was determined the board members would be polled for the appropriate date, the location of which would likely be Milan, Michigan, in

August, 2011. This meeting would be for the presentation of the FY 12 operating plan. However, thereafter September 7th, in Washington, DC was confirmed as the selected location and date with the members.

II. Chief Executive Officer's Report

Director Lappin expressed his pleasure to have worked with this Board and thanked them for their continued leadership and support of him and the Bureau staff. He also expressed his appreciation for the support provided by the Department over these years. Director Lappin indicated the Bureau's inmate population continues to increase, adding 850 inmates to the base during the previous week. The Bureau has added 2,500 inmates to the base since March. Director Lappin indicated the Bureau has systematically surveyed institutions for increasing triple bunks at the low and medium security institutions to absorb the expected increases. If prosecutions and convictions continue, it will not be at all surprising to increase the base by 6000-7000, this with a potentially decreased budget which has delayed the activation of FCI Mendota and FCI Berlin until FY 12. Staffing has begun at Mendota but Berlin will not be staffed until additional funding is received. Consequently, with more inmates, we have longer waiting lists for inmates who need programs such as FPI, Education and Drug Treatment Programs. The continued closing of factories, while necessary from a cost standpoint, has added to the problem of inmate idleness. Director Lappin indicated he had briefed the Attorney General and Deputy Attorney General regarding the need to continue to enact legislation which will offer inmates reduced sentences for participation in inmate programs, to include FPI programs. Various strategies are being addressed in an effort to provide more good time, thus reducing sentence length and aiding in the overcrowding and budget shortfall as well providing skills which aid in successful reentry.

Director Lappin briefly discussed the status of the Bureau staffing and budget. He stated that while we cannot add additional staff as he had hoped, the current plan is to maintain those staff we currently have on board.

The Director discussed the need for additional space in the Special Management Units (SMU) and his hope that additional space can be added soon. He stated that since the addition of ADX Florence in 1995 no similar space has been added. He provided a report on the reductions in lockdowns in our institutions during recent months which benefits FPI operations as well. The relocation of the disruptive high security inmates as well as additional staffing at those facilities has aided in decreasing the serious assaults seen prior to that time.

III. Controller's Report

Ms. Hawkins distributed the detailed cost containment report. She reviewed the continued savings in G&A and explained that FPI's G&A expenses are 12% below the original budget. Factory overhead expenses are $4.0 million below plan YTD. Inmate payroll expenses are slightly above plan for the month due to the high level of production in the Furniture and Textiles business groups. Central Office capital expenditures are $3.1 million below plan. Ms. Hawkins stated the corporation is overall well below plan, and the cost containment behavior modification is apparent. The month of March is not an overall indication of the financial trend of the corporation, but more as an impact of delayed shipping/collections on several large contracts. The up side of this should be seen in elevated sales in the coming months.

Mr. Laird added that we are beginning to see the impact of factory closures. As he visits factories, staff are discussing new ideas for saving in their respective area. This attitude is evident in the reductions in factory overhead.

Ms. Hawkins discussed the key indicators for the March balance sheet which reflected $244 million in cash versus a plan of $266 million. FPI operating cash was $(9.4) million. Corporate management has carefully watched the cash flow, understanding the impact of the delay in shipping the large Textiles order for outer tactical vests. Ms. Hawkins indicated Accounts Receivable has increased during the first quarter, however the month of March Accounts Receivable amount over 60 days exceeded plan, primarily due to a delay in other agencies' responsiveness. Ms. Hawkins stated the Accounts Receivable staff continue to be relentless in collection efforts.

Chairman Spears questioned what agencies accounted for most of the bad debt. Ms. Hawkins indicated it was primarily non-government customers who have a bad debt allowance, not one large dollar account but a number of smaller accounts which are slow to collect and typically we collect only a portion of their total debt. The governmental agencies do typically pay, but may have inconsistent and/or negotiated term dates and/or staff shortages impacting their timeliness, all of which impacts FPI's collections. Ms. Hawkins indicated they are continuing to work with the General Managers to improve the aging of our vendor payments. Ms. Hawkins indicated the FPI quick ratio is 1.5 which is a solid financial position.

Ms. Hawkins discussed the income statement. Total sales for March are below plan at $61 million versus a plan of $65 million; however, the cost of sales is below plan. Several of the business groups are above plan in sales. Ms. Hawkins stated that several items, not reflected in the plan such as the Florence write-off had impacted income. Even with this write-off FPI has incurred a lower loss than planned. Ms. Hawkins reviewed each of the business group's sales and earnings for the Board, explaining variances. She indicated the expectation is to exceed plan in sales and earnings during the remainder of the year based upon current backlogs.

Board member Lofthus commented that due to the instability of the FY-11 budget and worse still the anticipated FY-12 budget, agencies must protect current staff. Significant reductions will be seen in programs, services such as IT, large purchases curtailed etc. Mr. Lofthus indicated FPI should be carefully reviewing our business lines to determine impact of those more inflation proof vs. those more exposed. While FPI may have several long term contracts in place through FY-12, all government purchasing will be reduced, thus FPI may be impacted.

Mr. Laird expressed to the Board the commitment of the General Managers. He indicated they had recently reviewed their group's expectations for the coming year and with few exceptions they have not reported significant reductions of sales. They will remain diligent and in communication with their customers to proactively plan. It was annotated that the cost containment initiatives had been taken very timely.

Mr. Laird also explained to the Board the careful review of cash by corporate management on a weekly basis. The discussion also includes the maintenance of monies in the capital reserve account. Large shipments are expected at year end, resulting in an increase in accounts receivable and a decline in cash,

as collections for these sales will not occur until FY 2012. Ms. Hawkins noted that in FY 09 FPI net income was $(35.8) million after the abnormal events such as loss on factory closures occurred. If these events were factored out, FPI would have only incurred net income of $(28.7) million. The same comparison was made for 2010 actual and 2011 projected with the net income before abnormal events at $(17.2) million and $(8.8) million. This analysis demonstrated that FPI's net income related to normal ongoing operations is improving. The reduction in capacity as well as other cost containment measures pushed the corporation towards the trending goal of break-even.

IV Chief Operating Officers Report

Mr. Laird expressed his appreciation to Warden Hollingsworth and to Associate Warden John Shook for the superb hospitality shown to the Board. Mr. Laird expressed his appreciation for the Leavenworth staff facilitating additional tours and last minute changes due to the cancellation of the Crisis Management Training. He added that the staff are to be commended for the outstanding FPI operations.

Mr. Laird expressed his appreciation to Director Lappin for his years of dedicated support of UNICOR. He acknowledged the promotion of Phil Sibal to the SES position of Senior Deputy Assistant Director. Mr. Laird provided an overview for the Board of the FPI Associate Warden's National Training held March 7-11, 2011. He advised the board that 150 senior FPI managers received valuable training which focused on OSHA certification and safety/environmental compliance, OIG audit updates, Warden Panels and other pertinent topics. Mr. Laird expressed his appreciation to Board Members Roberts and Elliott for conducting the Board of Directors Panel and to the Director for his briefing.

Mr. Laird updated the Board on the FPI staffing. He indicated that all 240 displaced employees have been placed in either Bureau or other FPI positions or have retired. FPI currently has 1,379 employees.

Mr. Laird updated the Board on the ongoing OIG Helmet Investigation. At this point we are unsure when to anticipate the final report. Corrective action measures have been reviewed and are solid. Information will be shared with the Board as soon as it is received. Mr. Laird indicated we would be prepared with press statements once informed of the proposed report release.

Mr. Laird discussed with the Board the R-2 Certification of factories in the Recycling Group. He explained this is a tremendous undertaking. The R-2 certification is rapidly becoming a requirement of federal agencies as well as private industry companies who obtain materials from governmental sources. He stated the Lewisburg Factory is expected to receive this recognition April 15, 2011. (Update: R-2 Certification was received.) The other Recycling factories expect to receive their R-2 Certifications by the end of calendar year 2011. Additionally, Mr. Laird indicated he is pleased to report the financial turnaround of the Recycling Group. The recycling operations have increased safety and accountability standards and with the increase in the commodity prices the group looks sound.

Mr. Laird then provided to the Board an update on the solar panel project. He advised the Board that FPI had contracted with Constellation Energy and the State Department to provide a $10 million solar panel project, part of their (DOS) renewable energy saving package which includes wind and solar energy. Mr. Laird advised the Board that the Electronics Group anticipates this will be a model for other agencies to meet their mandated greening initiatives. This agreement created positive press for FPI and will consume much of the inventory which is currently held by FPI. Initial shipments of solar panels for

the DOS project will begin in May with completion of shipments before the end of the fiscal year.

Mr. Laird advised the Board there had been no new legislative issues since the previous meeting. He thanked the Board for preparing a thank you letter to the Attorney General in support of FPI purchasing.

ACTION ITEM: Mr. Laird had requested approval by the Board to publish a notice of FPI's intent to produce Magnetic Induction Lights in Fed Biz Opps, which the Board approved. FPI received no negative responses to the notice. FPI recommends approval by the Board to produce Magnetic Induction Lights and other energy efficient lighting to the federal government as a competitive product under FSC 6210, lighting fixtures. FPI will not invoke the mandatory source to obtain this work. The motion was unanimously approved by the Board and this product will become a part of our package of energy products available to our customers.

Mr. Laird advised the Board that the inmate employment count for FPI is currently at 14,847. Mr. Laird shared that he had discussed this issue at the AW Training. He reiterated the efforts to increase part time employment in order to provide job skills training to more inmates, especially in those positions where higher skill levels are not needed and those within two years of release.

Mr. Laird discussed the FPI web redesign. The Board members were provided a memorandum of explanation of the proposed redesign. The web will become more user friendly, allowing customers more flexibility and ease in managing product comparisons. Mr. Grieser indicated we had contracted with an outside source to review and make recommendations for needed changes to enhance customer purchasing. Mr. Grieser's group has sought the input from each business group to ensure the various needs are addressed. Because of the many IT security issues this is a time consuming and costly undertaking. Mr. Grieser and his team plan to review the proposal provided by the contractor, determine the best utilization for the funds and bring the final proposal to the board for approval. Mr. Gale and Chairman Spears expressed their support and sense of potential impact of this initiative. Additional details will be forthcoming

Mr. Laird then discussed with the Board the suggested new structure of several groups to include the Continuous Improvement Branch. Specifically he expressed a proposed designation of a Corporate Quality Manager. This position would report to the Chief of the Quality and Continuous Improvement Branch. He provided information which had been shared with the General Managers wherein they would each designate a Deputy General Manager in each group who would be responsible for the quality management oversight of their factories. The Deputy can utilize other staff as deemed necessary to effectively monitor the factories. Each group will be provided initial guidance of corporate expectations, and follow-up of program activities will be included in each group's quarterly financial meetings. The Board supported the philosophy and expressed their expectation that this would strengthen the overall corporate quality program.

Mr. Laird then reviewed with the Board the financial and capacity structures of each business group. He reviewed the downsizing which had occurred during the last two fiscal years. He addressed the needs of several business groups staffing. Mr. Laird proposed a downsizing Phase III. This would include several factories in which anticipated work did not materialize. The Board approved the proposal and Mr. Laird indicated the announcement would be made once all necessary approvals are obtained.

Chairman Spears reflected that with the slow-down in government purchasing due to the budget, FPI may incur deeper, faster cuts than anticipated. The Board agreed that corporate management must continue communicating with customers obtaining information with which to advise the Board. The Board discussed the contract options available to customers who don't have funding available. The Board discussed the three consecutive years of sustaining losses and requested a three year budget prognosis outlining future assumptions. Mr. Laird advised the Board that FPI provides outreach and training to contracting staff of DoD reaching approximately 1,000 purchasing staff per year. Mr. Laird briefed the Board on a recent meeting he attended with the senior leadership of GSA's Federal Acquisition Service in an effort to maintain strong relationships with our Federal customers. The Board members added their concern of the relevancy on the Hill for those programs like FPI who touch only 9% of our inmate population. Additional discussion centered on the need to concentrate FPI efforts on those inmates closest to release to aid in their successful reentry. Ultimately it is important to note that those inmates are provided job skills training at no expense to the taxpayer for its operations and enhances the budget of the Bureau by providing supervision of and a decrease in idleness for almost 15,000 inmates.

Chairman Spears noted no further business, therefore the meeting adjourned at 12:55 p.m.

_____

Paul M. Laird, Chief Operating Officer/Corporate Secretary