

FPI BOARD OF DIRECTORS MEETING
January 12, 2012
WASHINGTON, DC

A meeting of the Federal Prison Industries (FPI) Board of Directors was held at the Department of Justice, Washington, DC on January 12, 2012.

IN ATTENDANCE: David Spears, Chairman
 Don Elliott, Vice Chairman
 Lee Lofthus, Member
 Audrey Roberts, Member
 Frank Gale, Member
 Donald Stanton, Deputy Assistant Secretary of Defense, for DoD
 nominee

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Paul Laird, Chief Operating Officer, FPI
Phil Sibal, Senior Deputy Assistant Director
Charles E. Samuels, Jr, Director, Bureau of Prisons
Thomas R. Kane, Asst. Director, IPPA, 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 8:00 a.m. He welcomed the new Director and Chief Executive Officer of FPI, Mr. Charles E. Samuels, Jr. to his first Board meeting. Mr. Spears stated he looked forward to working with Mr. Samuels in this new role. He expressed his appreciation to Mr. Tom Kane for his service during the previous months as BOP Acting Director and Chief Executive Officer of FPI. Mr. Spears also thanked Mr. Donald Stanton for his willingness to attend for Alan Estevez, nominee for the Department of Defense. Mr. Spears expressed his appreciation to Mr. Lofthus for hosting the group for this meeting as well as coordinating the afternoon discussion with the Attorney General.

I. Approval of the September 7, 2011 Meeting Minutes

The Board of Directors considered the draft minutes from the September 7, 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, with March or April as the months to target and likely the meeting would again be held in Washington, DC. It was later determined the meeting would be held April 19th in Washington, DC.

II. Chief Executive Officer's Report

Director Samuels expressed his appreciation for the opportunity to work with the Board in this capacity. He thanked them for their continued leadership and support of the Bureau of Prisons. Director Samuels indicated he had been in the job for three weeks. He emphasized the significant challenges the Bureau faces with 37,000 employees and approximately 220,000 inmates. These challenges are all the more difficult to manage with significant budget constraints expected. Director Samuels indicated we expect the Bureau's inmate population to increase annually at the rate of 6,500 inmates. He stated we must be innovative as we carry out our mission with a duty to be conservative with taxpayer dollars. Director Samuels expressed gratitude for the support of the Department, FPI, and all of our staff as we work together to protect the American public. The BOP's Executive Staff realize the challenges FPI faces, with the changes in our mandatory source status impacting the ability to employ more inmates to meet the growing population of the Bureau. Director Samuels stated he has accepted the challenge to prepare inmates for their reintegration and release back to society, and that this process begins immediately upon their entry into our prisons. He expressed his appreciation to FPI as being a critical program in the BOP's reentry efforts. Director Samuels indicated he had received letters over the years from inmates who were released and later wrote back regarding the important impact the FPI program had on their return back into their communities.

Director Samuels stated the program remains successful. Even during a slow economy, FPI management has done an excellent job of maintaining cash and keeping the program viable. Director Samuels indicated the Attorney General has a strong commitment to FPI as a critical reentry program, teaching inmates job skills as well as aiding in the safety and security of our prisons. Director Samuels stated he shares that commitment, and stated that, "it is the right thing to do", providing inmates the opportunity to become better prepared for reentry and decreasing the likelihood they will recidivate. Director Samuels indicated he is very supportive of the program as it has been a premiere program over the years, previously employing almost half of the BOP's inmate population. He expressed concern that FPI is now employing only 8% of eligible inmates.

Director Samuels expressed his pleasure that FPI has been granted new authorities and he looked forward to being a part of this implementation. He further stated he looked forward to the dynamics and expertise of working with the Board of Directors and he expressed his sincere appreciation for their continuous support and care about the agency. Director Samuels stated that together, we can work to carry out the mission of the Attorney General to prepare inmates for reentry. We have 117 institutions and together we can connect with staff and make a difference to these inmates.

III. Cotton and Co, LLP - Audit Report

Alan Rosenthal, Partner, presented to the Board the FY-2011 Audit Report for Federal Prison

Industries. He indicated he looks forward to working with the FPI Staff on the review for FY-12. He presented an overview of various materials for the Board and in conclusion he advised the Board that for FY-2011 FPI received an unqualified audit opinion on its financial statements and it was free of significant deficiencies or material weaknesses.

Mr. Lofthus asked if they foresee any serious challenges ahead, to which Mr. Rosenthal responded he did not. Mr. Lofthus expressed his appreciation to the auditors as well as the FPI staff for the extra work necessary in preparing two sets of statements. Mr. Laird added his appreciation to the audit team for their continued professionalism and the detailed analysis they performed on the corporate books. He stated that Management is very aware of the sustained losses and has been carefully balancing the program and business side of the corporation. He stated further that while we have carefully maintained our cash reserves we are also monitoring inmate employment levels. Mr. Laird expressed his appreciation to the Board for their continued support as we carefully balance these needs.

Mr. Rosenthal concluded his report by stating he expected a continuation of the same results seen during the FY-11 audit for this next year.

IV. Controller's Report

Ms. Hawkins distributed the detailed cost containment report for December. She reviewed the continued savings in General and Administrative (G&A) expenses and explained that FPI's G&A expenses are below plan. She stated the year to date actual is \$14.8 million versus a plan of \$17.2 million. Total savings is expected at \$9.1 million as the Phase 3 factory consolidation continues. Additionally, upon the reorganization of the Product Support Center (PSC) a \$2.5 million dollar savings will occur.

Factory overhead expenses are \$44.1 million year to date versus a plan of \$44.9, which is a small savings but is consistent with customer orders. Inmate payroll expenses are expected to be reduced by \$1.4 million this year which has been a direct result of the emphasis by Management to only employ necessary workers. Central Office capital expenditures continue to be below plan as management is releasing cash only as deemed essential. However, Ms. Hawkins indicated that with the current cash reserves, it is time to invest in our infrastructure. We are in need of repairing several factory roofs. This comment prompted Mr. Laird to discuss the plan for future factory roof repairs. He explained to the Board that FPI would like to announce a solicitation for roof repairs and include a provision that inmates be utilized in the repair, as part of a "live work program". This model was previously utilized at another factory roofing project for FPI and was highly successful.

Ms. Hawkins discussed the December balance sheet key indicators, which reflected \$237 million in cash versus a plan of \$261 million. FPI operating cash was down \$7 million but this is primarily as a result of difficult collection efforts. She stated the payment terms of 45 days fall in the 60 days out category for commercial customers, which has an impact on the FPI cash. She also stated a portion of the reduced collections were impacted by government employees taking leave during the December holidays which slowed collection response.

Ms. Hawkins stated she expects a recovery during the coming month. Inventory continues to be consistent with plan. Some programs appear higher because of their current backlog needs. Mr.

Spears questioned the shop stock inventory which had previously been mentioned by the auditors. He asked about the impact of shop stock on the inventory levels. Ms. Hawkins discussed the FPI shop stock inventory and its impact on inventory levels as it moves through the system. She advised the board that the finding discussed was minor, (the value insignificant) however, management is scheduled to provide training for FPI Factory Managers on this topic. Mr. Laird then explained to the Board the status of the solar panel inventory. Due to the fragility of the solar cells, we are attempting to manufacture as many finished panels as possible. Finished panels are more durable and easier to store than the wafers. This effort increases the cost of the inventory as it moves from raw materials to finished goods. He explained that as the market fluctuates so does the value of the inventory

Ms. Hawkins indicated FPI's quick ratio is 2.17, up from the previous meeting, which is indicative of a solid financial position, while the current ratio is 3.25.

Ms. Hawkins then discussed the income statement key indicators. Total sales for December are below plan at \$174 million versus a plan of \$175 million. The lower than anticipated sales in the SINGARS program and solar panel products represented a significant portion of the lower profile. The SINGARS sales are expected to be included in the 2nd quarter sales. Mr. Sibal advised the Board that if FPI removes the variances created within the Electronics Group, FPI sales are stable. The cost of sales are within normal range of 91-93%, the sales and earnings in the other business groups have been compensating for these variances.

In spite of the lower sales levels, FPI has incurred less loss than planned at \$(2.2) million versus a plan of \$(2.4) million. Ms. Hawkins reviewed each of the business group's sales and earnings for the Board, and explained any variances. She indicated the expectation is to meet or exceed plan in sales and earnings during the remainder of the year.

Mr. Lofthus discussed downsizing within DOJ and the decrease in discretionary monies which could impact office expansions, office furniture purchases, etc. Mr. Stanton, representative for the DoD indicated they are also facing decreases in defense staffing as part of the military downsizing in Afghanistan, and declines in the civilian workforce. Mr. Stanton stated that every purchase is being carefully reviewed. The board discussed the need to remain aware of where the government purchases are headed to seek opportunities in those areas, and in particular those areas where component parts may be made offshore and/or refurbishment areas in government offices with the reduction in new furniture purchases, etc. Mr. Lofthus indicated the budget appears to be flat at best, while some are feeling deep cuts in areas of furniture, travel, printing and fleet.

Ms. Hawkins reviewed the year end FY 2011 cash forecast, and the quarterly comparison which reflected FY 12 projected factory earnings of \$49 million versus a plan of \$52 million. Projected net loss is \$23.4 million versus the plan of \$23.6 million. Accounts receivable is projected to decrease \$13 million versus a plan of \$23.5 million and total cash is projected to decrease \$50.2 million versus a planned increase of \$2.6 million. The total decrease in cash includes decreases in FPI's cash and advanced cash of \$14.2 million and \$35.9, respectively. Ms. Hawkins finished her review for the board by indicating the corporation has remained very close to the presented operating plan thus far.

V. Chief Operating Officer's Report

Mr. Laird welcomed Director Samuels to his first Board of Directors meeting and thanked Mr. Lofthus for hosting the meeting at Main Justice.

Mr. Laird presented a slide which compared inmate employment trends with the BOP inmate population. During this time, the Bureau's inmate population increased by 70,000 inmates, while employment in FPI during that same period decreased by 12,000 inmates. With the significant growth of the Bureau's population, FPI must continue to employ as many inmates as possible.

Tom Kane, Assistant Director, discussed changes in the crack cocaine laws which went into effect last November. These changes resulted in the immediate release of nearly 1,800 inmates. The Board expressed their interest in the new institutions coming on line and their potential for FPI factories. Mr. Kane indicated they hoped that Berlin, Mendota and Aliceville would help the already overcrowded conditions, however Berlin did not build space for a FPI factory. Mr. Kane indicated there is no money in the FY-13 budget to build prisons. Mr. Kane discussed recent press relating to the labor needs in Alabama and other states for laborers and the hope that FPI may be able to capitalize on this shortage.

Mr. Laird then reviewed a chart for the Board which tracked corporate earnings over the last 12 years, noting projected sales in FY 12 are consistent with sales recognized in FY 2002. Projected FY 12 sales are nearly \$200 million less than in FY09.

Mr. Laird reviewed the cash analysis of the corporation for the previous eleven years. Management has effectively managed its cash reserves in an effort to retain a stable cash position for future business opportunities as they arise.

Mr. Laird discussed the two new authorities which were included in the 2012 Commerce, Justice and Science Appropriations Act. The new authorities provide FPI the ability to participate in the Prison Industry Enhancement (PIE) program, as well as the authority to engage in pilot projects (approved by the Board) to manufacture products which are or would otherwise be manufactured outside of the United States. He detailed procedures that FPI would utilize to present proposed pilot projects to the Board. Requests for pilots would include import penetration ratios, impact on private sector business, potential inmate employment levels, and a review of stakeholders.

He briefed the Board regarding the proposed pilot projects and the possible work opportunities the business groups are currently exploring.

Mr. Laird briefly explained the PIE program, which is currently available to state correctional industry programs. It permits correctional industries to contract with private industry to manufacture products for sale to the private sector. This authority requires a lengthy certification process through the Bureau of Justice Assistance, which FPI has already begun; however, it is an extremely resource intensive process. Board Member Gale discussed the PIE program utilization in the Colorado Prison System and how beneficial the program has been within their state. He

stated they were involved in fish farming, among other industries. Mr. Laird shared with the Board a meeting to be held the following week with the Services Business Group relating to aquaponics. Mr. Gale expressed an interest in FPI partnering with the Veterans Administration to work in various capacities. FPI has approximately 8% of its inmates classified as veterans.

ACTION ITEM: Mr. Laird presented a pilot project to the Board for approval. The project is a partnership with Woolrich Incorporated in which FPI would manufacture two items, a fleece sweatshirt and a down parka which are now made exclusively outside of the U.S. Woolrich wishes to contract with FPI to make these items in the United States. The pilot has the potential for \$8 million in annual sales with nearly \$600 thousand in projected earnings.

Mr. Laird requested Board approval to pursue this pilot project with Woolrich to manufacture textile items currently made outside the United States. The Board approved the action to proceed with the pilot program with Woolrich.

ACTION ITEM: Mr. Laird presented to the Board a pilot project regarding solar panels. Mr. Laird explained that approximately 70% of solar panels are imported from outside the United States. The capacity of the Otisville and Sheridan factories at full capacity would represent 2-3% of the total current domestic manufacturing capacity.

FPI seeks to enter into agreements to provide contract manufacturing to produce photovoltaic modules for a private sector company (or companies) whose panels would otherwise be manufactured and/or obtained from sources outside of the United States.

For this initial pilot effort, FPI would enter into contract manufacturing agreements or like agreements with commercial companies for the production of PV panels. The panels would then be owned, sold and/or utilized by the company as their product in the commercial marketplace. Subsequently, via electronic memo, the Board approved this proposal.

ACTION ITEM: Mr. Laird requested approval by the Board to publish its intent to produce metal targets and accessories for firing ranges as a competitive product. The Board approved the request to publish notice to produce targets.

ACTION ITEM: Mr. Laird discussed the comments received from a FedBizOpps notice of FPI's intent to produce baseball caps. These comments came from a domestic cap producer, New Jersey Headwear, as well as letters from the Mayor of Newark, N.J, and trade unions from the Newark area. The Board discussed the comments and the potential impact on the private sector company and disapproved FPI's request.

ACTION ITEM: Mr. Laird explained to the Board that the recent request to manufacture windmills had been advertised in FedBizOpps with no comment received. FPI is requesting permission to manufacture windmills for sale to the federal government. The Board approved this request.

Mr. Laird then discussed with the Board the current capacity reduction initiative. He discussed the reduction in MISB staffing by reducing computer data centers in the field. He explained this

initiative will be achieved through careful reorganization and attrition. Mr. Lofthus asked for details regarding the number of data centers to be closed since this would support the Administration's commitment to reduce federal data centers.

Mr. Laird advised the Board that the Office of Inspector General's investigation of the helmet operation in Beaumont, Texas continues with no new information to report.

Mr. Laird discussed with the Board the impact of Section 827 on our traditional clothing and textile work. In an effort to maintain the amount of work we had traditionally received from DoD, we are now looking at other items we may not have made in the past. This has resulted in some small businesses claiming FPI is taking work from their factories. Mr. Laird discussed an Air Force jacket procurement currently in the market research phase. Mr. Laird explained the required market research process on this product has resulted in inquiries from the offices of Senators McConnell and Paul from Kentucky. Mr. Laird advised the Board that we have assured those offices that we would not embark on the Air Force Jacket contract without carefully analyzing impact on private sector business and consulting with them before any action is taken. Mr. Laird advised he would keep the board informed and consult them regarding the Air Force jacket before FPI made any final decisions. Mr. Lofthus indicated his hope that FPI could work with these small businesses in teaming agreements which benefit both. The Board reiterated their concerns about negatively impacting small business owners. Specifically, they discussed the importance of our mission to minimize impact on private industry.

In this same regard, Mr. Laird explained to the Board that FPI received correspondence from Senator Franken's office regarding a constituent who manufactures steel doors. He discussed the alleged impact FPI has made on his company. Mr. Laird reviewed the correspondence with the board and advised the Board that FPI had responded to Senator Franken's office indicating FPI would only maintain steel door work for the Bureau of Prisons.

Mr. Laird briefed the board regarding the business opportunities for the business groups. He stated the Office Furniture Business Group had recovered during recent months and were exploring the opportunity to produce chair parts which are currently being imported from outside the United States; the Fleet and Industrial Products Group is working on a proposal to assemble electric vehicles for a private company; the Services Business Group is actively exploring the potential of tilapia farming; the Electronics Business Group is pursuing solar, cable, LED and magnetic induction lighting projects, and the Recycling Business Group has received R-2 certification at all 7 of its operations.

Mr. Laird indicated that with the appointment of Director Samuels, FPI will present a revised inmate employment goal at the next meeting. Mr. Laird stated that of the nearly 40,000 inmates released back into the community last year, approximately 13% had acquired FPI experience during their incarceration. The goal being considered by FPI is to ensure 20% of inmates releasing to the community will have obtained FPI experience during their incarceration. Mr. Laird indicated that a careful balance must be struck between efforts to employ inmates nearer release and those with longer sentences who need productive programs as well. Mr. Gale pointed out that this has been discussed on several occasions and FPI needs to move to a decision at the next meeting.

The Board discussed the importance of working closely with the department, legislators, and private sector sources to promote the values of the program and our impact on recidivism reduction.

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

Paul M. Laird, Chief Operating Officer/Corporate Secretary