FPI BOARD OF DIRECTORS MEETING
September 7, 2011
WASHINGTON, DC

A meeting of the Federal Prison Industries (FPI) Board of Directors was held at FPI's headquarters, Washington, DC on September 7, 2011.

IN ATTENDANCE:
David Spears, Chairman
Don Elliott, Vice Chairman
Lee Lofthus, Member
Audrey Roberts, Member
Frank Gale, Member
Alan F. Estevez, DoD nominee

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Paul Laird, Chief Operating Officer, FPI
Phil Sibal, Senior Deputy Assistant Director
Thomas R. Kane, Acting 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 8:00 a.m. He expressed his appreciation to Tom Kane for his service as BOP Acting Director and Chief Executive Officer of FPI. Mr. Spears also welcomed Mr. Alan Estevez, nominee for the Department of Defense and thanked him for his willingness to serve on the Board of Directors.

I. Approval of the April 14, 2011 Meeting Minutes

The Board of Directors considered the draft minutes from the April 14, 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 several potential locations discussed. However, it was thereafter determined the next meeting would be on January 12, 2012, at the Department of Justice, in Washington, DC with the confirmation of attendance by the Attorney General.

II. Chief Executive Officer's Report

Acting Director Kane expressed his pleasure to work with the Board in this capacity. He thanked them for their continued leadership and support of him and the Bureau staff. Mr. Kane discussed the Bureau's inmate population. He stated that during the period 2001 through 2011, the average increase to the base population was approximately 6,500 additional inmates per year. For 2011, the anticipated increase to the base is 7,600 inmates. Acting Director Kane stressed the importance of the UNICOR work program for Bureau of Prisons. He stated the shift of resources to Homeland Security and terrorism since the 9-11 attacks has resulted in significant budgetary challenges for the BOP. He expressed his concern about the BOP's budget for the coming year. He stated that FPI is more important than ever during this critical budget situation because FPI not only provides job skills training for inmates, but also assists in keeping inmates productively occupied, with no use of appropriated monies for its operations. Therefore, we have both a programmatic as well as a business mission challenge.

Mr. Lofthus indicated the budget is expected to be at best flat, if not reduced in the coming years with no relief in sight. Board member Gale stated that with the reduced number of inmates employed, we need to reassess our 25% inmate employment goal.

Mr. Laird stated that with the reduction of factories, and the shrinking number of inmates employed, we may need to focus our goal on the number of inmates releasing to the community. FPI might potentially consider changing its goal from employing 25% of eligible inmates overall, to establishing a goal of providing training to a set percentage of inmates who are being released.

III Controller's Report

Ms. Hawkins distributed the detailed cost containment report for July. She reviewed the continued savings in G&A and explained that FPI's G&A expenses are below the original budget. Factory overhead expenses are $9 million below plan YTD. Inmate payroll expenses are slightly above plan for the month due to the higher than expected level of production in the Furniture, Fleet and Textiles business groups. Central Office capital expenditures are $3.1 million below plan. Ms. Hawkins stated the corporation's overhead expenses overall are well below plan, and the cost containment efforts are apparent in the bottom line. Ms. Hawkins indicated a portion of the cost savings was the result of roof repairs and equipment which were not funded.

Ms. Hawkins discussed the July balance sheet key indicators which reflected $284 million in cash versus a plan of $254 million. FPI operating cash was $(2.6) million. Ms. Hawkins indicated the FPI cash is strong even with losses for the month. She also indicated accounts receivable staff continue to pursue collections diligently and renegotiating customer contracts that yield earlier collection, where applicable. Inventory continues to decline with a $10 million reduction in inventory which also contributes to the cash availability. Ms. Hawkins indicated FPI's quick ratio is 1.8 which is indicative of a solid financial position.

Ms. Hawkins also discussed the July income statement key indicators. Total sales for July are below plan at $55 million versus a plan of $67 million. The lower than anticipated sales in the SINCGARS and solar panel products represented a significant portion of the lower profile. In spite of the lower sales level, FPI has incurred less loss than planned at $(4.4 million) versus a plan of $(11.7) million. 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.

Ms. Hawkins reviewed the FY-12 Annual Operating Plan projections for the Board and reported projected sales and earnings of $679 million and a loss $(23.5 million) that includes an $8 million write off for factory closures. She also indicated because the anticipated Phase III factory closures savings were not reflected in the projected loss, management expects the loss to be approximately $15.5 million.

Ms. Hawkins continued with a review of projections for the next two fiscal years. Her discussion and presentation addressed the fiscal years by categories (1) anticipated FY 2013, (2) less than anticipated FY 2013, and (3) less than anticipated FY 2014.

She stated the anticipated FY 2013 projections considered an increase in production for the Electronics Business Group in the SINCGARS and solar panel areas; no change in the other business group revenue trend; and further reduction in Central Office administrative expense. In accordance with these projections, FPI anticipates a positive net income of $13 million and a strong ending cash balance of $205 million. The FY 2013 projections are measured as conservative and commensurate with anticipated customer requirements.

In contrast, the less than anticipated FY 2013 projections assumes no additional customer requirements for the Electronic Business Group for the SINCGARS and solar panel sales; reduced customer orders in the remaining Business Groups of 5% to 25% based on a reduction in the federal discretionary spending; and continued reduction in Central Office administrative expense. These assumptions produce a negative net income of $22 million while experiencing a slight reduction in the cash balance of $14 million, or an ending balance of $192 million.

Ms. Hawkins continued the comparative forecast analyses discussion with the less than anticipated FY 2014 projections. This forecast continues the assumption of lower customer orders as a result of reduced federal demand and continues management's efforts of reducing the Central Office administrative expense. Accordingly, the assumption produces a negative net income of $19 million and a lower ending cash balance of $186 million.

Ms. Hawkins indicated that even with the anticipated lower sales volume, capacity and overhead reductions projected in the early discussion, FPI's self sufficiency and solvency is consistent through FY 2014 with the management of its spending and collections.

In furtherance of the federal reduced budgets discussion, Mr. Estevez took the opportunity to brief the board regarding the reduced budget of the Department of Defense. He noted that a reduction in purchasing has already begun. The DoD will have critical cuts (30 to 40 percent) in certain programs.

IV. Chief Operating Officer's Report

Mr. Laird began by explaining to the Board the corporate administrative reductions already taken as well as those anticipated. He detailed FPI's commitment to tighter management of our inventories.

Mr. Laird addressed a question raised at the previous meeting, regarding our financial standing if significant reductions in customer requirements occur in FY 2013. Mr. Laird discussed the assumed less than expected SINCGARS sales, a 25% reduction in office furniture, solar panel sales not materializing, and a 10% reduction in the Clothing and Textiles Group.

The above scenario projects revenue of $609 million with $36 million in earnings at the factory level bringing FPI's net loss to $22.4 million.

The FY 13 and FY 14 projected sales are less than FPI sales 10 years ago. If legislation such as the Jones Bill were to pass, it would have significant impact to the Textiles Group. This type of impact would make the above projections significantly worse. Mr. Laird also reiterated Ms. Hawkins' previous comments regarding less than anticipated FY 2014 projections.

Board Member Elliott asked what impact it would have if FPI were reduced from our usual 7 or 8 percent market share to the limited 5% recommended in the bill. Mr. Laird replied that the impact would be significant. Mr. Estevez stated DoD contracting staff are being driven to ensure they select the most competitive bidders, who are Berry Amendment compliant.

Mr. Laird explained to the Board that Corporate Management continues to look at Central Office and factory staffing for realignment opportunities to reduce overhead. Bottom line data provided for FY 13 assumes the Central Office reduces staff positions by approximately 40 positions, either by realignment or through attrition.

Action item one FPI requests approval to publish in FedBizOpps a notice of its intent to produce White T-Shirts, Federal Supply Classification (FSC) 8420, as a competitive product. The Board provided their consent to publish electronically, prior to the meeting and the publication, along with comments from the public were included in the Board documents. One private citizen expressed concern; however, FPI received no additional comment. The Board approved production of the item.

Action item two requested the Board consider a proposal by FPI to produce caps, as an internal supplier only, in support of FPI's embroidery services currently offered to Federal government agencies. The FSC for caps is generally either 8405 (mens) or 8410 (womens). Mr. Laird explained these caps were to support embroidery services only and will not be sold unembroidered. This was to reduce the cost paid commercially to purchase the caps we are now embroidering. Mr. Laird indicated it would take approximately 12 months to recover the equipment investment and the small operation would employ 20 to 30 inmates at an existing factory. The Board approved the publication of the notice of intent to produce caps in FedBizOpps.

Action item three FPI requested approval to publish in FedBizOpps FPI's intent to assemble/produce vertical windmills which fall under FSC 6115. FPI would produce these windmills either as a contractor or sub-contractor on a competitive basis, not invoking mandatory source. The Board approved the request to publish.

Mr. Laird then discussed the cost saving initiatives of the corporation. He stated that during the last three years FPI has sustained nearly $100 million in negative earnings. As a result, FPI has closed, and downsized factories to eliminate excess capacity. At the beginning of this cycle, FPI had 102 factories, is currently at 93 factories with a projected 88 factories by year end. Mr. Laird then reviewed for the board various business opportunities which had not materialized, therefore resulting in the need to close/downsize additional factories, impacting FCI Bennettsville, FCI Dublin, FCI McCreary, FCI McKean, FCC Lompoc, FCC Beaumont, FCI Three Rivers, FPC Bryan, FCI Tallahassee and FMC Carswell. This initiative will impact 12 factories, 74 staff positions, and result in approximately $10 million in savings. The field positions impacted consist of approximately 30% management staff. Additional downsizing efforts include the consolidation of the Fleet and Industrial Products business groups under one General Manager, and dividing the Interagency Solutions Group staff between the MRACS and FMB Branch. William Frohlich, Branch Chief of the former Inter Agency Solutions Group, will now assume responsibility of the Quality and Continuous Improvement Branch.

This initiative reduces two GS-15 positions. Further initiatives will involve consolidation/attrition in several groups, with a goal to reduce approximately 40 positions. These initiatives will net salary and benefits savings of approximately $6 million to the corporate overhead. Additional details will be reviewed at future board meetings.

Mr. Laird updated the Board on the OIG helmet investigation at FCC Beaumont, indicating that it appears to be in the final stages. The board questioned whether any legal amounts were identified in the unasserted claims listing of legal liabilities. General Counsel, Marianne Cantwell indicated it was not listed because no formal notice of liability has been issued. The report will be updated if needed.

Mr. Laird took the opportunity to update the Board on the successes of the Recycling group. He advised the Board that 5 of 7 recycling factories had received R-2 Certification which is a rigorous certification required for e-waste recyclers. He advised they are currently working on an agreement for recycling materials for NASA.

Mr. Laird updated the Board on the status of the annual audit findings of our independent auditors, Cotton & Co., LLP. To date, it appears there are three NFR's which are related primarily to inventory and shop stock. At this time the report is very much in line with last year's performance.

Mr. Laird reviewed with the Board current legislative initiatives. He specifically discussed the current language in the House version of the Justice Appropriations Bill which provides FPI the ability to participate in the PIE Program and for the Board to approve pilot projects for FPI to manufacture products which are or would otherwise be produced offshore.

Mr. Laird briefed the Board regarding our initiative to maximize inmate participation in FPI prior to their release. Factories have been asked to provide priority placement to inmates within two years of release, and to also maximize the use of part time workers.

Robert Grieser, Chief, MRACS provided a yearly update. He noted inmate employment which was at a high in FY-07 at 23,000 inmates has declined to the current low of 14,200. He reviewed the changes in inmate employment by business group, and in relation to the BOP population. He noted part time inmates employed has increased to 12% as opposed to an average of 4% over the previous three years. FPI continues to maintain approximately 26,000 inmates on a waiting list to work in FPI. Mr. Grieser stated that at locations with a UNICOR operation there are 143,000 inmates, of which 37% are within 2 years from release. Roughly 80% of FPI inmates are located in Medium and Low facilities. FPI's goal is to increase its hiring of inmates within 2 years of release. Mr. Grieser reviewed the current breakdown of FPI customers with DoD at 46% and DHS at 24%.

Mr. Laird briefed the Board on the status of the Elkton grievance and the Nightingale Corporation settlement through ADR.

Acting Director Kane discussed with the board a request from the Deputy Attorney General, James Cole. This request involved a detailed analysis of job types in FPI which have the most impact upon recidivism reduction. A work group prepared preliminary data which examined the job types and classes within UNICOR and compared those to future employment demands in the community. Further discussions will be held with the Department as to additional needed follow-up.

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

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Paul M. Laird, Chief Operating Officer/Corporate Secretary