

FPI BOARD OF TELECONFERENCE MEETING
September 17, 2015
Washington, D.C.

A teleconference of the Federal Prison Industries (FPI) Board of Directors was held from Central Office, Washington, D.C., Thursday, September 17, 2015.

IN ATTENDANCE:

David Spears, Chairman
Don Elliott, Member
Frank Gale, Member
Audrey Roberts, Member
Lee J. Lofthus, Member

QUORUM:

A quorum was present.

ALSO IN ATTENDANCE:

Charles E. Samuels, Jr., Director, Bureau of Prisons
Chief Executive Officer, FPI
Mary M. Mitchell, Assistant Director, IEVT
Chief Operating Officer, FPI
Phil Sibal, Senior Deputy Assistant Director, IEVT
Ken Yeich, Deputy Assistant Director, IEVT
Marianne Cantwell, General Counsel, IEVT
Brad Beus, Chief Financial Officer, FPI
Robert Grieser, Chief, Marketing, Research
& Corporate Support, FPI
Janet E. Conner, General Manger, IEVT
Christian Burch, Executive Assistant, IEVT

Chairman Spears called the teleconference to order at 3:00 p.m. and thanked Ms. Mitchell and her staff for facilitating the meeting.

I. Budget (New Operating Plan)

Mr. Spears opened the meeting and a discussion ensued regarding dates of upcoming meetings and an annual calendar. Additionally, he stated that the primary purpose of this teleconference was to discuss a newly formulated budget plan. Mr. Spears also suggested we schedule a meeting with the Survey and Investigations (S&I) Committee.

Mr. Beus began by presenting the newly formulated budget plan and described how it was devised. Mr. Elliott asked about the 14% variance of the original plan as compared to the new. He asked what measures Mr. Beus had used to make such a significant reduction in costs. Mr. Beus explained that certain groups were able to look at invoice shipments and apply cost savings initiatives, which he ensured were built into the new plan. This resulted in G&A reductions along with efforts to “tighten the belt” and look at all measures. Ms. Mitchell noted that mothball plans had not been factored into the original plan, which brought us close to a breaking even point. Additionally, we identified sales targets and discussed strategies for mitigating anomalies.

Mr. Elliott spoke about a series of plans that have to occur before we can achieve the newly formulated plan. He also asked if any contingencies were in place in case of a government shutdown. Mr. Beus noted that a government shut down had not been factored in. He did highlight however some of the ways in which the new reduced plan had been formulated: modeling after commercial companies; looking at what has been successful in the past and what could be secured in the future; and MOUT (which has a high probability of being secured).

Mr. Elliott asked Mr. Beus what his confidence level was with regard to the newly formulated plan. Mr. Beus stated his confidence level was 70% because of the variables that could not be controlled.

Ms. Mitchell noted being very confident with the cost savings plan identified. Ms. Mitchell added that she was about 70% confident with the sales plan and 75% confident with the overall plan.

Mr. Elliott asked Mr. Beus if he would classify this as a worst case scenario. Mr. Beus responded by stating, “no, not with a very aggressive sales plan.” Mr. Elliott asked everyone if they were confident enough to put their job on the line further stating it was important to be realistic with the formulations. Mr. Beus noted he remained 70% confident overall.

Mr. Spears commented that he recognized the challenge we faced in reformulating the original budget plan and appreciated our efforts. Mr. Lofthus noted that the Board was pushing for a breakeven point. He added that despite the challenging request, Unicor needs to stretch to make the new budget work. He also noted that there had been an increase of \$56 million in sales and asked if we were comfortable with the estimate. Mr.

Beus noted that MOUT should drive a big portion of the estimate and that a lot is contingent upon the DLA Recycling contract.

Mr. Lofthus asked which portion of the estimate was not incorporated for mothballing. Mr. Beus explained that this estimate was derived from the absolving cost (if operating at a lower overhead). Mr. Lofthus asked noted that 6% of the profit at the factory level seemed like thin margins and expressed his concern. Mr. Beus noted that there had been a reduction in material costs which was not built into the original plan (especially in furniture and electronics). Ms. Mitchell noted that \$8 million has been factored into the new formulation.

Ms. Mitchell clarified from the September 2, 2015 meeting that the budget does require Board action/approval.

Ms. Roberts identified this as a very rigid process. She also asked what impact this would have on staffing within FPI. She stated that we have to make this happen, and that will take having the staff "on board" with the idea and understanding our current status.

Mr. Elliott recommended we generate for the board, a monthly report to track trending levels. Ms. Roberts asked Mr. Beus if we generated such a report each month. Mr. Beus confirmed that we do. Mr. Lofthus added that given our current financial situation, we do need status updates more frequently. He added that he would be more comfortable receiving reports on a monthly basis so that the Board could stay abreast of trending thus respond more proactively when necessary. Mr. Elliott asked Mr. Beus if he used special indicators to track anomalies and trending. Mr. Beus confirmed that we do track this. For clarification, Ms. Mitchell asked what the expectation was insofar as monthly reports, plus interim teleconferences each month. She stated we would target the 10th day of each month for monthly reports to the Board. Mr. Lofthus added that we need to remain aware of trending and any other unusual patterns during this time of crisis.

Mr. Gale advised the Board that he needed to depart but would like to make a motion to approve the operating plan.

At this time, all voted unanimously to approve.

Director Samuels was asked by Mr. Spears if he had any concerns. Director Samuels stated he had none at this time.

II. McKinsey - Phase 3

Mr. Spears asked if everyone was satisfied with Phase 3 of the external business assessment. The Board made a consensus to move forward on this.

III. Upcoming Meeting Locations/Dates

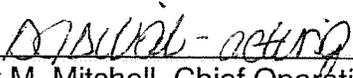
Ms. Mitchell presented upcoming dates for meetings and teleconferences and mentioned that we were devising an annual calendar for the Board's review and concurrence. Mr. Spears confirmed that the calendar would be sent to all Board members for concurrence. Ms. Mitchell identified FCI Milan and FCI Gilmer as potential locations for upcoming meetings. Mr. Spears reminded all to consider costs associated with travel when determining locations for meetings. He further stated we should select locations with lower per diem rates to minimize overall costs. Mr. Spears suggested we select alternate locations for January in the event of inclement weather. Ms. Mitchell stated that we would explore some warmer areas that have factories with diverse operations. Mr. Lofthus noted that he did have concerns with the weather for FCI Milan and FCI Gilmer. Additionally, Mr. Elliott recommended canceling these locations and selecting others.

IV. S&I Committee

Ms. Mitchell advised the Board that we would be sending an RSA for cutting tables. She also advised that the S&I Committee had requested certain documents, such as Board meeting minutes, resolutions, and new authorities).

Ms. Mitchell closed by stating that we are working to streamline things for the Board. Mr. Spears thanked the group for their efforts.

The meeting was adjourned at 4:00 p.m.



Mary M. Mitchell, Chief Operating Officer, Corporate Secretary