

FPI BOARD OF TELECONFERENCE MEETING
November 16, 2015
Washington, D.C.

A teleconference of the Federal Prison Industries (FPI) Board of Directors was held from Central Office, Washington, D.C., Monday, November 16, 2015.

IN ATTENDANCE:

David Spears, Chairman
Don Elliott, Member (not present)
Frank Gale, Member (not present)
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
L. C. Eichenlaub, Deputy Director, Bureau of Prisons
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
Christian Burch, Executive Assistant, IEVT

Chairman Spears called the teleconference to order at 9:30 a.m. and thanked Ms. Mitchell and her staff for facilitating the meeting.

I. Action Items

Due to time constraints affecting one of the Board members, Action Items were discussed first. The following Action Items, which were provided to the Board Members in advance of the meeting, were opened for discussion/approval:

Action Item:

Pilot proposal to manufacture metal expandable and contractible, transforming habitable structures:

FPI currently manufactures a variety of metal building components. A company has approached FPI and is proposing that FPI manufacture metal expandable and contractible, transforming habitable structures that are rapidly deployable (for storage, mobile hospitals, briefing rooms, etc.) as part of current repatriation pilot efforts. These items would otherwise be performed and/or obtained from sources outside of the United States. Under the pilot, FPI will furnish the raw materials and inmate labor required to produce the finished product. These items would then be sold in the commercial market under the label of the company with whom we contract. The items produced would be generally classified under the North American Classification System (NAICS) code 332311, Prefabricated Metal Building & Component Manufacturing.

The proposed work by FPI would create between 50 jobs at the Federal Correctional Institution (FCI) Gilmer, and generate \$20,625,000 in annual sales, and an estimated \$3,262,500 in earnings.

Ms. Mitchell noted that the Department of Defense (DOD) and North Atlantic Treaty Organization (NATO) would secure this pilot.

Mr. Spears asked if there would be pushback. Ms. Mitchell stated that she did not anticipate any pushback but that part of the pilot, Rapid Deployment Unit (RDU) discusses specific items that should be further reviewed.

The Board approved this pilot proposal. Ms. Roberts initiated a motion to approve, Mr. Lofthus seconded the motion, and Chairman Spears confirmed he was in favor.

Action Item:

FPI's 80th Year Anniversary Publication:

This publication was provided to the Board Members in advance of the meeting and presented for final approval.

The Board recommended additional edits, and with the addition of those edits approved to finalize publication.

II. Budget (Quarterly Status Update)

In accompaniment with read-ahead material which was provided to the Board, Mr. Spears opened the meeting and prompted Mr. Beus to provide a financial overview.

Mr. Beus provided an update on the recent FISMA audit, which included financial statements. He noted that FPI closed the year with sales at \$471.9 million, which was better than the plan of \$448.7 million. Mr. Beus noted that Factory Earnings were slightly over \$27 million. He noted that Net Loss finished at \$17.9 million compared to the original plan of \$34.2 million. He also stated that Cash was at \$183.8 million versus a quarterly projection of \$212.5 million. Additionally, he noted that Cash was lower mainly due to higher inventories, putting FPI at \$134.5 million versus a plan of \$64.5 million.

Due to time constraints, Mr. Lofthus had to exit from the meeting.

Mr. Beus noted that FPI's October results compared to actuals were as follows: Sales for October were \$40.7 million versus a plan of \$38.8 million. Earnings at the factory level were \$3.3 million versus a plan of \$1.1 million. The margin at the factory level was 8.9% with Factory Overhead at \$10.9 million versus a plan of \$11.5 million. Inventory was at \$138.7 million over a plan of \$116.2 million. For clarification, Mr. Spears asked if we should have been below the projected \$130 million, and Mr. Beus confirmed this was accurate.

Mr. Beus noted that the backlog at the end of October was ahead of last year's backlog by a total amount of \$57.9 million (FY15 \$237,852,000 versus FY16 \$295,770,701). Additionally, he stated that all General Managers (GMs) were comfortable with their backlog projections support their overall plan with the exception of the Recycling Business Group. For clarification, Mr. Spears asked for more information on the backlog. Mr. Beus explained that backlog refers to all booked orders not yet shipped. He also spoke about General and Administrative (G&A) expenses, noting that we were on target at \$32,000 under the plan of \$4.2 million. He informed the Board that overall, we had a \$559,000 loss versus a planned loss of \$2.1 million. Mr. Beus also noted that backlog for the Electronics and Services Business groups were slightly below FY15 levels.

Mr. Beus also noted that sales were down for the Electronics and Services Business groups. Additionally, Mr. Beus welcomed any recommendations from the Board on the "scorecard" chart which was part of the read-ahead material. Additionally, Mr. Beus welcomed any recommendations from the Board on the "scorecard" chart which was part of the read-ahead material.

Ms. Mitchell highlighted that projections were in the process of renegotiations which has the potential for cost savings of \$17 million. She also noted that we did not obtain the DEMIL award, which was factored into a plan of \$4 million in earnings.

Mr. Spears commented that he liked the scorecard format and asked if had the potential to track month to month cash as opposed to an explanation of vast differences. Ms. Roberts noted she was looking forward to seeing a break-even point.

Ms. Mitchell noted that the graphs provided were to illustrate that we experienced an uptick in sales despite a corporate G&A decrease. She also mentioned that we anticipated more positive increases based on cost savings reductions, procurement initiatives, and consolidation of services.

Mr. Spears asked if we were considering a five-year trending pattern to more efficiently monitor results. Ms. Mitchell responded with information about the rollout of various mothball plans for numerous factories. She noted that such plans have the potential for \$11.7 million in savings for FY 16. She also informed the Board of several closures, and described the correspondence which was provided to the institutions. She stated that we should realize savings from the mothballing activity starting in the 2nd Quarter. She mentioned that the impact from closures would take longer due to the various stages involved in a nine-month process.

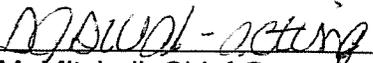
III. McKinsey Update (Phase 3)

Ms. Mitchell informed the Board that Phase 3 of the McKinsey business transformation project has been initiated. Ms. Roberts commented that the McKinsey project has offered significant improvement toward FPI's potential. Ms. Mitchell stated that she appreciated their efforts as well. She also thanked the Board for their support in funding the first phase of the project.

In light of Ms. Mitchell's recent appointment to Regional Director for the Western Region, BOP, Ms. Roberts and Mr. Spears thanked her for her tireless efforts and contributions made while serving as Assistant Director and Chief Operating Officer for FPI.

Director Samuels thanked the Board and noted it would be his last appearance, due to his upcoming retirement. He further stated that it was an honor to serve as Chief Executive Officer for FPI and Director for the BOP. He noted that one cannot put a price tag on the benefit of changing people's lives. He added that he felt proud about the accomplishments made for FPI during his tenure and that he would continue to support and highlight the benefits of FPI in his role as a private citizen. Lastly, he thanked Ms. Mitchell for all of her efforts in driving FPI forward.

The teleconference was adjourned at 10:10 a.m.



Mary M. Mitchell, Chief Operating Officer, Corporate Secretary