FPI BOARD OF DIRECTORS TELECONFERENCE
April 22, 2016
Washington, D.C.

A teleconference of the Federal Prison Industries (FPI) Board of Directors was held from FPI Headquarters in Washington, D.C., Friday, April 22, 2016.

IN ATTENDANCE:

David Spears, Chairman (call-in)
Don Elliott, Member (unable to participate)
Frank Gale, Member (unable to participate)
Audrey Roberts, Member (call-in)
Lee J. Lofthus, Member (call-in)

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Thomas R. Kane, Acting Director, Bureau of Prisons,
Commissioner, FPI (call-in)
Gary Simpson, Assistant Director, IEVT
Chief Executive Officer, FPI
Judi Simon Garrett, Assistant Director, IPPA (call-in)
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
Shaquana Faison, Administrative Officer, Marketing,
Research & Corporate Support, FPI

Acting Director Kane called the meeting to order at 11:05 a.m. bringing attention to National Re-Entry Week (April 25th-29th) and thanking everyone in FPI for their contributions toward public safety.

I. Approval of the March 29, 2016 Meeting Minutes

The Board of Directors considered the draft minutes from the March 29, 2016 meeting conducted at FPI, Washington, D.C. The Board voted unanimously to approve the minutes as presented. The Board discussed the date of its next teleconference on May 18, 2016 at 10:30 a.m.

II. Chief Financial Officer's Report

Mr. Brad Beus, Chief Financial Officer, provided the financial update utilizing PowerPoint charts that were provided to the attendees prior to the meeting. He followed the same format as the last quarterly update starting off with presenting the FY16 Forecasted Plan and the FY15 Actuals. Mr. Beus also covered Corporate Income, Business Group Sales, and Business Group Earnings. Lastly, he discussed the March results for both Group Sales and Earnings and the status of Cash and Inventories.

Corporate Income

The overall Corporate Income level has a projected $2.6 Million loss versus a $1 million gain. When we last looked at the forecast at the end of December, it was a projected $1.2 million gain. Looking at Corporate Income by category, we are projecting $2.8 million lower earning in the business groups. Other income is below plan by $1.2 million due to reimbursements for Interagency Solutions being below projections.

Investment Income is projected to be $400,000 higher than expected. When comparing Investment Income to last year, we have earned over $1 million by investing in long term Treasury notes versus strictly short term bills and daily investment.

Business Group Sales

The revised Sales Forecast is projecting sales of $454 million vs. the originally projected $463 million.

- Services and Agribusiness appear to be close to the projected sales.
- Recycling and Electronics are below planned sales level.
    - Recycling - $20 million is a result of not getting DLA contract and lower than expected commodity pricing.
    - Electronics - $16 million is a result of uncertainty of Custom and Border Protection getting Radio Funding. Some of the fleet sales may be pushed out to Q1 FY17.
- Office Furniture and Clothing and Textiles are both ahead of planned levels.
    - Office Furniture - $14 Million increase is due to strong Q1 and Q2 sales and a stronger than expected backlog.
    - Clothing and Textiles - $14 Million is due to body armor and BDU orders.

Business Group Earnings
All groups with the exception of Clothing and Textiles are below planned earnings:

- Electronics - $2.85 million lower than projected; questioning whether electronics will gain Up-fit sales in Q3 and Q4 due to CBP radio funding. CBP had to request additional funding for radios to be installed on upfit vehicles. Up-fit work is the most profitable and a possible delay in sales is a major factor in the adjustment earnings.
- Recycling - $7.7 million lower than projected due to not being awarded any part of the DLA contract and commodity pricing remaining lower than projected.
- Services - $2.2 million lower than projected due to loss of commissary sales. Services has done a good job of obtaining sales to offset the loss of commissary sales; however, these sales had lower profit margins.
- Agribusiness - $1 million lower than projected due to lower beef and milk sales.
- Clothing and Textiles - $12.6 million (forecasted $3.8 million) due to high demand for products and better profit margins.

Cash and Inventory

FPI cash remained flat since last month but has increased $8 million since January. As of April 1st, customers will continue to be back billed for partial shipments unless the contract states otherwise. Improvements in cash are also commensurate with a decline in our total inventory.

Mr. Lofthus expressed a concern regarding the greater than expected loss in Office Furniture despite higher sales. Mr. Beus indicated that earnings are affected by product mix. Mr. Simpson offered that we currently have too many different product lines, and that we will be undertaking a review of product complexity to eliminate some of the custom offerings where we currently lose money. He provided several examples.

III. Chief Executive Officer's Report:

Mr. Simpson stressed that there is more work to be done to become profitable. He met with Krueger International on Thursday, April 21st and the company is a big supporter of FPI. They discussed what they could possibly do to help FPI become more profitable, e.g., buying parts on consignment and assisting with plant layout.

On April 13th, FPI had a National Video Conference where cost strategy was the topic of discussion. A savings plan of $27 million annually (approximately one-half of this to be realized in the current fiscal year) is projected. Mr. Simpson also discussed the mothballing of 12 factories and the plan to possibly mothball approximately 6 more (review in 30-60 days). Some factories will have their production lines moved to other factories for a more strategic consolidation, e.g., closing Ashland case goods and Milan metals and moving to Coleman. He explained how additional efficiencies may be gained from these moves that are not yet factored in. The net impact on inmate employment from these actions after moving the work to other locations will be a reduction of approximately 600 positions.

Mr. Simpson plans to review the mothball actions in September 2014 and 2015 and the 12 that are currently being mothballed. Some of these locations will likely need to be closed. He asked the General Managers to come up with a 25% and a 50% business growth plan scenario in the event a reactivation is needed.

Mr. Simpson discussed aligning capacity and sales so that as business grows, FPI will maximize factory output and open new factories as necessary. Factory Overhead optimization was discussed; 24 AWI/SOI positions were eliminated with a $3.5 Million savings ($800,000 this year). He also discussed the constant work on turning profits around with an operating profit (forecasted at $2 million) by the end of fiscal year 2016.

Mr. Lofthus asked a question as to how the employees were notified they were being displaced. Questions were raised by Appropriations staff from Capitol Hill. He explained to the staffers that FPI had taken the necessary measures. Mr. Lofthus suggested FPI communicate further and keep the Hill staffers well informed. Mr. Simpson stated that 21 Central Office positions were abolished, 15 management and 6 non-bargaining, meaning employees were displaced. Employees are given nine months to find alternative employment. The process affords the displaced employees to be given priority consideration for other jobs. Ninety days prior to the 9 months, for any employees who are not yet placed, a Reduction In Force (RIF) action would occur. If employees do not find jobs within this time period, they can either lose their jobs or employees with seniority can bump someone in a position they are qualified to perform. Mr. Kane stated that he understand the decision Mr. Simpson had to make and looks forward to coordinating and communicating with all staff. He wants to do everything possible to help employees find other jobs. Mr. Spears stated that he appreciates Mr. Simpson's approach and needs time to digest all the changes being made.

Mr. Simpson then addressed plans for the impairment of assets, indicating his recommendation would be to maximize the write downs in the current year and get these impaired assets off the books to minimize the impact in FY 2017. Board members present indicated they felt this was a prudent strategy. He asked the Board to give this some thought and provide their feedback.

General Counsel's Report and Summary of Action/Information Item:

<u>Bylaws</u>

Ms. Cantwell discussed bylaw changes and asked if the Board members approved of the changes and had any input. Mr. Kane wants to wait to address bylaw changes. He asked for more time to review.

Corporate Seal

The Board suggested that Ms. Cantwell send an email to all Board members with the corporate seal options. At that time a decision will be made.

The teleconference was adjourned at 12:00 p.m.

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Gary Simpson, Chief Executive Officer