FPI BOARD OF DIRECTORS TELECONFERENCE
June 15, 2016
Washington, D.C.

A teleconference of the Federal Prison Industries (FPI) Board of Directors was held from FPI Headquarters in Washington, D.C., Wednesday, June 15, 2016.

IN ATTENDANCE:

David Spears, Chairman (in person)
Don Elliott, Member (call-in)
Frank Gale, Member (call-in)
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
Irina Ruddy, Deputy Chief Financial Officer, FPI
Christian Burch, Executive Assistant, IEVT
Kia Smith, Administrative Officer, IEVT

Chairman Spears called the meeting to order at 10:30 a.m. and thanked everyone for their participation and subsequently turned the meeting over to Acting Director Kane for an agency update.

I. Approval of the May 18, 2016 Meeting Minutes

The Board voted unanimously to accept the minutes.

II. Director's Report

Acting Director Kane had no formal report. He commented that he was pleased to see that FPI was making such good progress.

III. General Counsel Update and Action Items:

Ms. Cantwell updated the Board on the bylaw revisions. OGC reviewed to ensure the Commissioner role is compatible with Federal regulations. A DOJ organizational chart was presented, as revised. Formal approval will be requested at the July meeting, after the 30 day waiting period is complete.

IV. Chief Financial Officer's Report:

Mr. Beus, Chief Financial Officer, provided the financial update utilizing PowerPoint charts that were provided to attendees prior to the meeting. The first slide shows a comparison between our Plan, the updated Forecast as for March 31, 2016, Results of FY15 and year-to-date as of May 31. At Business Group Level and at Corporate Level as of May, we have significantly surpassed income levels of the March Forecast and the FY16 Plan. The second slide shows the Group earnings are $7 M better than plan and earnings at the Business Group Level after G&A is fully allocated. Other income is $1 M below plan; investment income is $400 thousand above plan. Overall, we are $6.4 M above plan and corporate earnings of $4.2 M. The third slide illustrates sales through May 31, 2016. Overall, we are $19 M ahead of plan. A large part of this is due to the Clothing and Textiles Group being $14.1M above plan and the Office Furniture Group being $21.3 M above plan. Slide four shows where each Business Group is with regards to earnings after G&A is allocated. It was reported that cash remains strong at $190 M. The final slide illustrates our inventory versus cash position, with inventory below plan for the first time in recent memory. Inventory is down 25% from its December peak.

Mr. Elliott asked if the positive position is sustainable, what the year-end outlook is looking to be; and if we are differentiating between one-time savings vs. ongoing savings. While it is too early (with just two months of data) to identify a trend, the operational earnings position appears to be positive, and our expectation is that the results of prior actions taken to generate savings will compound over time. Monthly breakeven is currently at around $40 M in sales. The year-end outlook will be updated in the next quarterly forecast as of the end of June. And the tracking does account for one-time vs. ongoing savings. The CEO mentioned that we are pursuing price increases, and seeking to eliminate losing product lines, such as solar. Our near-term focus will continue to be on cost savings. We do anticipate having to absorb an $11 million write off in FY 16.

V. Chief Executive Officer's Report:

Mr. Simpson noted four items relating to consolidation efforts: 1) Pricing actions to be more competitive; 2) The 1528 accounts balance still has about 5 M; 3) Discontinue items in Office Furniture; and 4) Focus to push hard on cost savings to grow.

Mr. Simpson provided an update on anticipated factory closures, and of Congressional inquiries. He planned to announce that a few factories were planned to be opened. Mr. Simpson stated we are working hard to make sure that the displaced staff find jobs.

Mr. Simpson indicated that $39.8 M in cost savings was projected, with $34.2 M anticipated. These figures also incorporate raw material savings that have been generated. It was noted that cost savings currently account for 80 percent of our focus.

We are also working on business development opportunities, with the VA, Air Force, and NCMA, and others, and are in the process of generating a priority listing of agencies to strategically target. Mr. Simpson noted that we are seeking to partner with private sector firms and Federal agencies on a variety of efforts, including two areas within the Department of Commerce—Hollings Manufacturing Extension Partnership and the SelectUSA Program. He added that he hopes to have leads in 6-9 months.

Mr. Simpson also noted that training for the Factory Managers will begin the week of August 15.

Potential options for the next in-person meeting in August were discussed. The teleconference was adjourned at approximately 11:18 a.m.

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Gary Simpson, Chief Executive Officer