FPI BOARD OF DIRECTORS TELECONFERENCE
July 13, 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, July 13, 2016.

IN ATTENDANCE:

David Spears, Chairman
Audrey Roberts, Member (call-in)
Lee J. Lofthus, Member (call-in)

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Gary Simpson, Assistant Director, IEVT
Chief Executive Officer, FPI (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
Erika Farmer, Management Analyst, FPI

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 Brad Beus, Chief Financial Officer for an agency financial update.

I. Approval of the June 15, 2016 Meeting Minutes

The Board voted unanimously to accept the minutes.

II. 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 showed corporate income categories, a comparison between final results of FY 2015 where we ended with a net loss of $17.9 M. The FY 2016 projected plan was initially $1M, but we are now projecting $2M in net earnings. Mr. Beus reiterated that the potential building write-offs or impairment is not built into the forecast and has the potential to result in an $11.5M loss; however, operationally we are forecasting a $2M gain in FY 2016.

The second slide illustrated a sales forecast of $479M for the year, which is 3.4% above plan and 2.5% above FY15 levels. We are currently at $366M and we are forecasting $113M in sales for the 4^{th} quarter. There is a decrease for sales projected in the 4^{th} quarter. Overall, the projected plan for the Business Groups are as follows: Agri-Business Group is on plan; Services Business Group 16% below plan; Recycling Business Group 60% below plan; Office Furniture Group is expected to exceed plan by 23%; Electronics Business Group 2% below plan; and Clothing & Textiles 14% above plan. The fourth slide showed forecasted earnings levels at the business group level - post G&A allocation. Clothing & Textiles is projecting to finish the year at $18.9M in earnings which is 724% above plan. These earnings over plan are as a result of the following three factors:

1. Sales are projected to finish $24M above plan.

2. The product mix has been optimal in that their highest profit margin are products where we experienced increased sales.

3. Textiles consolidated their factories early in the FY which improved capacity utilization.

The third slide reflected earnings at the business group level. The Electronics Business Group (EBG) is forecasting an $11.3M loss, or 297% below the FY16 plan. EBG's increase in forecasted losses is primarily hitting in the 3rd and 4th quarters when it was projected to be finished with mothballing and consolidations. However, due to complex equipment moves and customer order demands, there has been a lag on getting these consolidations completed. EBG is anticipating writing off approximately $1M of inventory in the 4th quarter. The sales plan for electronics and specialty metals were $12M below plan contributing to low profit margins.

The Office Furniture Group (OFG) is forecasting a modest loss of $419K versus a planned loss of $3.7M. Overall, OFG has benefited from consolidations completed last year and has had stronger than expected sales levels.

The Recycling Business Group (RBG) is forecasting to finish well below planned earnings. Mr. Beus reiterates this is primarily due to RBG not receiving DLA contracts that were built into the original plan and commodity pricing that has been lower than projected.

The Services Business Group (SBG) is forecasting to lose $4M rather than $1.7M. The biggest factor is that within SBG's plan we built in commissary sales, which carried with it much better profit margins than traditional services work.

The final three slides showed business group sales and earnings as of June 2016 and cash and inventory trends for FY15 and FY16 year to date. We are currently $22M above plan primarily due to strong sales in Clothing &Textiles and Office Furniture. All other groups are below their sales plan. The only group significantly below the sales plan is Recycling, again, which was due to the DLA contract. The cash and inventory chart does show a slight downward tick in cash that does not coincide with the downward trend in inventory - this is related to an increase in accounts receivables of $10M. This had to do with not getting IPACS (automated payments) processed in the last couple of days of the month. This is a short term anomaly and should correct itself. It should be noted that we are $9M above plan with regard to cash.

Overall we are projecting cash to be at $195M by the end of FY16. Despite the overall loss, Ms. Roberts acknowledged Mr. Simpson's hard work and stated UNICOR is headed in the right direction. Mr. Lofthus addressed his concerns about the Electronics Business Group losses being three times greater than planned. Mr. Lofthus also mentioned UNICOR needs to be aware that due to the upcoming election, the budget will be very tight for the next 3-6 months, with spending capped at FY 2016 levels. Mr. Beus is aware of the pending continuing resolution for FY17 through the fall and into early calendar year 2018, and the Office Furniture Group has a solid backlog that may be able to carry them for a couple of quarters.

Chairman Spears asked what FPI's expected low point would be for inventory levels, and Mr. Beus indicated that it would not go below $100M with $500-600M in sales.

III. Chief Executive Officer's Report:

Mr. Simpson noted there are no changes to the Strategic Plan, but discussed strong emphasis for the following measures:

1.1 Create integrated cost savings - track cost savings.
1.2 Optimize FPI production network – The union has asked what are our business growth plans are, following the consolidation, yet the transition efforts are expected to consume 75% of our time in the immediate and near future.
1.3 Procurement improvement - Continue data collection and fact finding. In the private sector, the supply chain is where we realized the bulk of our cost savings. FPI is identifying areas where we can seek economic price adjustments, or renegotiate for more advantageous contract terms at the end of the year.
1.4 IT infrastructure study – We expect to have actionable results in 4-6 weeks.

1.5 Maximize number of inmates with UNICOR experience – This measure will be reviewed further at a later time.

1.6 Increase inmate prospects for employment upon release – New area to emerge; how can we do better with recidivism rate (quality of jobs).

1.8 Increase knowledge and analysis of product costs and profitability - Focus on more work and being profitable.

2.0 Grow market share of existing government business – shift from our heavy emphasis on repatriation. We plan to nurture and grow our Federal customer base as a priority once we are in a stronger position to do so. Our plan is to identify a few product lines where we have room to grow and focus our efforts.

3.0 Action Plan – Mr. Simpson announced the roll out of the suggestion box. Twenty-one entries have been submitted thus far and we will collect the surveys on Friday.

Mr. Simpson confirmed the Factory Manager's training will be held the week of August 15, 2016. The Board of Directors will meet with the Factory Managers on August 18, 2016 for questions and answers. The team needs to work on a format involving the Board of Directors and the Factory Managers to ensure effective time allotment. The Board Members would like structure on the front end and less structure on the back end.

Ms. Cantwell will provide an email regarding the Factory Manager's Training and the by-laws will be addressed or approved at the next Board meeting in August. The teleconference was adjourned at approximately 11:30 a.m.

/s/

Gary Simpson, Chief Executive Officer