FPI BOARD OF DIRECTORS TELECONFERENCE
August 18, 2016
Washington, D.C.

A meeting of the Federal Prison Industries (FPI) Board of Directors was held from FPI Headquarters in Washington, D.C., Thursday, August 18, 2016.

IN ATTENDANCE:

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

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Thomas R. Kane, Acting Director, Bureau of Prisons, Commissioner, FPI (unable to participate)
Gary Simpson, Assistant Director, IEVT Chief Executive Officer, FPI
Judi Simon Garrett, Assistant Director, IPPA (unable to participate)
Phil Sibal, Senior Deputy Assistant Director, IEVT (unable to participate)
Ken Yeich, Deputy Assistant Director, IEVT (unable to participate)
Marianne Cantwell, General Counsel, IEVT
Brad Beus, Chief Financial Officer, FPI
Irina Ruddy, Deputy Chief Financial Officer, FPI
Robert Grieser, Chief, Marketing, Research & Corporate Support, FPI
Kia Smith, Administrative Officer, IEVT

Chairman Spears called the meeting to order at 1:00 p.m. and thanked everyone for their flexibility in scheduling the meeting. He also commended FPI on their steady progress and the staff for their accomplishments.

I. Approval of the July 13, 2016 Meeting Minutes

The Board of Directors considered the draft minutes from the July 13, 2016 meeting conducted at the FPI headquarters office, Washington, D.C., via teleconference. The Board voted unanimously to accept the minutes.

II. Chairman's Report

Mr. Spears stated that the monthly teleconferences were beneficial to the Board and requested to maintain as scheduled. Mr. Elliott, Mr. Lofthus and Ms. Roberts added that the financial update on the teleconference was also beneficial. Mr. Spears suggested that a reminder be sent out for upcoming conference calls.

Mr. Spears briefly discussed the Board's schedules for the next in-person Board of Director's Meeting. Mr. Lofthus stated that he will not be available the 2nd and 3rd week of October. The proposed time for the next Board of Director's Meeting was the week of October 24th. This date has not yet been confirmed.

III. Chief Financial Officer's Report:

Mr. Beus, Chief Financial Officer, provided the financial results for July and FY16 utilizing PowerPoint charts. Using Slide 1 (FPI Financial Performance), he explained that we are $5.7M ahead of projected earnings. The plan for the overall year is $1M and the revised forecast is $2M. Looking forward to August and September, we will be making an increase to the Excess and Obsolete Inventory Account (EXOB) this year for $1.95M. This will negatively impact our operating income. However, if we are able to maintain $40M in sales we should be able to achieve at least the revised plan of $2M in operating earnings.

Using Slide 2 (Forecasted Sales), Mr. Beus explained during FY16 we have averaged approximately $40.6M per month and August looks to be on track with this number. As of today, we are at $35.4M in Sales for August. Based on these numbers, we should be right on the revised forecast and possibly slightly above.

Using Slide 3 (Business Group Earnings), Brad illustrates the Business Group earnings are still well above plan forecasting the year of $3.4M and the plan of $4.8M.

Slide 4 (Corporate Earnings), reflects that Corporate earnings through July were $5.7M (Group Earnings above plan by $5.7M, Other Income below plan by $1.1M, and Investment Income above plan $613K). A couple of key factors that are contributing to Earnings are Factory Overhead is $4.7M below plan, G&A is $3M below plan, Investment Income is $0.6M above plan, and increased capacity utilization and good product mix for Clothing & Textiles (C&T) and Office Furniture (OFG), which has resulted in $16.9M in earnings ahead of plan.

Slide 5 (Business Groups Sales) shows that we will finish $23M above plan. Mr. Beus reviewed each Business Group's sales: AgriBusiness is right on plan. OFG is 40% above plan and has exceeded sales in all product group categories. C&T is 13.7% above plan and has exceptional sales in Protective Wear product groups. Electronics (EBG) is 3.7% below plan. Services (SBG) is 6.4% below plan and fell short in the Distribution and Call Center areas. Recycling (RBG) is 59% below plan.

Slide 6 (Business Group Earnings). Overall, due to the strong earnings in C&T and OFG ($18M combined), we are showing $1.3M in earnings at the Group Level and are $5.7M above plan.

Slide 7 (Cash and Inventory Trend). Mr. Beus reminded Board last month he pointed out a slight anomaly in that Inventory and cash declined simultaneously. The primary reason for this was a spike in Accounts Receivable. This month things have normalized and FPI Cash has increased to $191 M and is at its highest level in 10 months. The increase in cash has also enabled us to move $40 M from Operating Cash into investment. This is the first time in several years we have been in the position to move cash to investment rather than draw from investment. Mr. Beus also explained that after researching back 16 years, inventories are currently at their lowest level and are $5.1M below planned level. Much of the decline in inventory and the increase in cash can be attributed to the concentration on the 1528 account in Office Furniture. In January the 1528 account for OFG totaled $30.2M. At the close of July OFG 1528 account totaled $16.3M an overall reduction of $13.9M; as of today the 1528 account is below $10M. Overall both the Cash and Inventory trends are positive.

Slide 8 & 9 (Write-off and Impairment). This chart displayed on a corporate level, after potential building write-off and impairment, a forecast that FPI will realize an $8.4M loss. This includes $10.4M in impairment or building write-off. The $10.4M could be reduced by $4.4M making our losses only $4M provided we could recoup our Admin and deprecation expenses for buildings to possibly be used by the BOP. Mr. Beus stated that as it stands right now the write-offs and impairment will impact FY17 earnings by $4.4M.

Mr. Spears commented that he would like to keep track of Operating Profits.

Board Q&As:

Mr. Elliott asked are the positive results sustainable? Mr. Simpson responded that the results are from previous decisions made before his tenure; $30M saving at one time from the 1528 account; price increase on products (example: GSA calendars); the removal of AW/SOI off payroll (1/2 of which have been placed). Mr. Simpson stated that he was very optimistic.

Mr. Elliott asked are average sales different from when Agribusiness took over? Mr. Beus responded that they are slightly lower.

Mr. Spears asked what the depreciation timeframe is for cows? Mr. Simpson responded that milk cows need to be revalued due to commercial standards, and depreciated over 5-7 years. They had been valued (BOP) at full market value.

Mr. Lofthus asked why Clothing and Textiles earnings were way above sales? Mr. Beus responded that the factories consolidated the earliest. It was also due to the product mix – OTVs were very profitable.

Mr. Elliott asked can we predict "Restructuring Cost"? Mr. Beus responded stating that most costs will conclude in FY17.

Mr. Lofthus asked will there be a Business Group still in operating in the red. Mr. Simpson responded that Agribusiness will have a slight increase. SBG will break even. EBG, he believed will be trending positive but also stated that it is difficult to analyze them, due to the diversity of their product line. OFG will be in the positive following consolidation.

Ms. Audrey asked about Procurement Savings. Mr. Simpson responded that after doing some work we have saved about $3-4M.

IV. Chief Executive Officer's Report:

Mr. Spears asked Mr. Simpson to brief the Board on his conversation with McKinsey. Mr. Simpson noted that they agreed that it was not time for us to move forward with their recommendations. Gary also noted that we saved $750K by putting his project on hold.

Mr. Simpson started by reviewing the Strategy 1 – Cost Savings. We had a 32M savings from Factory Consolidation; 1.3M this year. Savings of earnings in AW/SOI positions 5.6M; total savings are $51M.

Mr. Simpson reviewed the results of the Employee Satisfaction & Engagement Questionnaire Survey.

Mr. Spears asked what was the response rate? Mr. Grieser responded that it was under 50% but he will check the data. It was subsequently identified to be at about 30%.

Mr. Lofthus asked when was the survey complete? Mr. Grieser responded after the OPM-initiated survey in July. Mr. Simpson added that we will redo every 6 months.

Mr. Elliott asked was this an electronic survey? Mr. Grieser responded yes, but noted that it could not capture names and locations, only the field vs. Central office responses.

Mr. Lofthus noted that survey was done Justice-wide with the same red scores in the same categories.

Mr. Spears inquired what was the cost? Gary answered that there was no cost.

Mr. Lofthus added that DOJ does their annually.

Mr. Elliott asked what we do with the information gathered from the survey. Mr. Simpson informed them that 3 sub-groups were created: Training, Effectiveness, and Rewards and Recognition. He also noted that a Task Force was created which included field staff, Central Office staff and a Union Representative to evaluate what can motivate staff.

V. Consolidation Report:

This segment Steve Harrison, Rebecca Bianchi, Lance Carter and Kent Renk gave an update on Consolidation via slide presentation (hand-outs provided).

Mr. Carter spoke regarding the closure/mothball of the following factories:

1) Cable: Lexington, Fairton (Cable & Plastic), Danbury, Loretto, and Memphis.
2) Recycling: Leavenworth, Lewisburg, Fort Dix, Tucson and Marianna.
3) Electronics: Pekin
4) Fleet: Terre Haute
5) Photovoltaic (Solar Panels): Sheridan

Mr. Simplson added that we need to temporarily purchase finished goods from OEI.

Mr. Renk reviewed Service closures:

1) Signs: Lompoc and Cumberland
2) Print: Leavenworth, Sandstone and Petersburg

Ms. Bianchi reviewed Office Furniture closures:

1) Systems Furniture: Coleman, Ashland, Schuykill, and Milan

2) Metals: El Reno, Milan, Pekin and Terminal Island
3) Case goods: Forrest City, Ashland and Allenwood
4) Seating: Allenwood Upholstery

Mr. Simpson noted that all Metals will move from Electronics to Office Furniture.

V. General Counsel's Report and Summary of Action/Information Items:

Ms. Cantwell updated the Board on the Investigative Summary regarding Helmets. She also provided the Board with copies of Press Articles and the AAFA letter. Mr. Simpson stated that FPI has tried respond to the DAG with facts but has not as yet heard anything back.

Mr. Lofthus stated that his office will give the Appropriators a heads-up.

Board approved action items and change in bylaws.

Mr. Grieser reviewed the analysis to determine the estimated number of private sector jobs created in the supply chain due to FPI's purchase of raw materials in the domestic economy. The Board acknowledged the analysis, and accepted the findings without additional discussion.

Meeting concluded. The Board then adjourned into an Executive session.

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Gary Simpson, Chief Executive Officer