FPI BOARD OF DIRECTORS TELECONFERENCE
September 14, 2016
Washington, D.C.

A meeting of the Federal Prison Industries (FPI) Board of Directors was held from FPI Headquarters in Washington, D.C., Wednesday, September 14, 2016.

IN ATTENDANCE:

David Spears, Chairman
Don Elliott, Member (unable to participate)
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
Gary Simpson, Chief Executive Officer, FPI
Judi Simon Garrett, Assistant Director, IPPA (unable to participate)
Ken Yeich, Deputy Assistant Director, FPI
Marianne Cantwell, General Counsel, FPI
Brad Beus, Chief Financial Officer, FPI
Robert Grieser, Chief, Marketing, Research & Corporate Support, FPI
Kia Smith, Administrative Officer, FPI

Chairman Spears called the meeting to order at 10:41 a.m. He had no opening comments.

Mr. Kane reported that there are currently 192,628 inmates with a 13K reduction. He stated that we will probably see another reduction. He mentioned that they are working with consultants on the assessments of Education and Halfway House Programs. They are also working with the Department on a response to recommendations.

I. Approval of the August 18, 2016 Meeting Minutes

The Board of Directors considered the draft minutes from the August 18, 2016 meeting conducted at the FPI headquarters office, Washington, D.C., via teleconference. The Board voted to defer approval of minutes until all Board members have had an opportunity to review.

II. Chairman's Report

The Chairman had no additional comments.

III. Chief Financial Officer's Report:

Mr. Beus, Chief Financial Officer, provided the financial results of July and FY16 to date utilizing PowerPoint charts. On Slide 1 (FPI Financial Performance), he explained that we are currently showing earnings of $11.9M. The plan for the overall year is $996K and the revised forecast is $2M. However, if we are able to maintain + $40M in sales in the month of September, we should be able achieve at least the revised plan $2M in earnings. It is significantly better than the $17.9M loss in FY15. At this point, we are projecting close to $12M in overall earnings at year-end, with a write-down of at least $7M expected.

On Slide 2 (Forecast Sales), Mr. Beus explained during FY16 we have averaged approximately $40M per month. As of today, we are at $35.4M in Sales for August. We will exceed the revised sales plan with the 1528 account equaling $25M.

On Slide 3 (Business Group Forecast Earnings), Mr. Beus illustrated that overall Business Group Earnings after G&A are $7.3M. This is still well above the planned forecast for the year of -$5.58M and the revised forecast -$3.4. He also noted that Clothing and Textiles and the Office Furniture Business Groups have exceeded their earnings.

Slide 4 (Corporate Earnings), reflected that Corporate earnings through August were $11.9M (Group Earnings above plan by $12.7M, Other income below plan by $1.4M, and Investment Income above plan $700K). A couple of key factors that contributed to Earnings are Factory overhead at $4.7M below plan (the effects factory mothballing from previous decisions), G&A at $3M below plan, Investment Income at $.6M above plan, and Increased capacity utilization and Good Product Mix for Clothing & Textiles (C&T) and the Office Furniture (OFG), which has resulted in $17.1M in earnings ahead of plan.

Slide 5 (Business Groups Sales), Mr. Beus noted as a reminder that Recycling did not get the DLA contract and that the 1528 account has made the Business Groups profitable. He added that Clothing & Textiles and Office Furniture are our two biggest groups.

Slide 7 (Cash and Inventory Trend), Mr. Beus discussed the primary reason for Inventory and Cash decreasing is that there was a spike in Accounts Receivable. This month FPI Cash has increased to $191M. Inventory may go as low as $80M. This increase in cash has enabled us to move $40M from Operating Cash to investment rather than draw from investment. The decline in inventory and the increase in cash are attributed to the concentration on the 1528 account in OFG. In January the 1528 account for Office Furniture totaled 30.2M. At the close of August, Office Furniture1528 account was under $10 M an overall reduction of $20.2 M.

Board Q&As:

Mr. Spears asked, regarding Actual to Plan, is that original plan or the revised numbers? Mr. Beus responded original plan. Mr. Spears stated that the Corporate Plan shows $11M net earnings. What is the projected write-off for the corporation this year? Mr. Beus responded $8M total, with the reevaluation of the herd, leaving a potential net profit of between $2 and $4M. He does not foresee the auditors having any significant issues.

Mr. Lofthus commented that compared to the previous year, he is very pleased with the year's outcome. Mr. Spears and Ms. Roberts concurred with his comment.

IV. Chief Executive Officer's Report:

Mr. Simpson stated that Sales FC at year-end is 505M; an 8% increase from 2015. Inventory is down 31% since December 2015. The Cash earnings reflect improvement this year.

Mr. Simpson reviewed the Strategic 1.0 – Cost Savings 1) Briefing with Deloitte on potential future IT consolidation; 2) Maximizing inmates employment to work in UNICOR (down 600 due to the consolidation); 3) Issued guidance to Factory Manager's on Job Share on ways to improve; 4) Enhance quality of inmate jobs by increasing inmate certifications. All will receive soft skills. Some will earn CDL and Welding certifications. Many factories exhibit best practices which we need to cross-pollinate.
Mr. Simpson reviewed the Strategic Plan 2.0 – Business Growth 1) Analysis of Market Sharing and to identify targeted numbers. 2) Select USA – we met with their Leadership Team to bring us repatriation opportunities. VA sources sought to partner with a Veteran-owned small business to increase our opportunities for work.

Mr. Simpson reviewed the Strategic Plan 3.0 – People 1) Training budget of 500K. Lin Burton, Chief of Training, will identify what specific training to spend the money on after clearing with FPI Leadership Team. 2) A Leadership Effectiveness Team was formed – Consist of 12 staff: 6 bargaining unit staff and 9 field staff. September 29, 2016 will be the first face-to-face meeting in the Central Office. 3) A group is also looking at awards and employee recognition as well, to include gainsharing. Mr. Simpson noted that the target for revising our policy will be by the December/January timeframe, with implementation in the next fiscal year.

The CEO spoke briefly about FPI's draft Operating Plan for the upcoming FY 2017 fiscal year. He indicated that sales would be in the $460M range, with ACU sales down around $11M (doing more contract manufacturing where we do not purchase the materials), reduced demand for outer tactical vests, and the lost ECWS-Extreme cold weather trouser contract due to a service problem. FY 2017 earnings are expected to be around $22M, about $12M shy of what we will need to fully replenish our cash reserves, replace equipment, maintain our buildings, and stand up new business ventures.

Board Q&As:

Ms. Roberts asked what was the service issue. Mr. Simpson indicated that poor delivery was the problem. Ms. Roberts expressed the importance of improving our quality of work.

Final Comments:

Mr. Kane thanked Gary, FPI management team.

Mr. Spears concurred and asked Gary to pass message on to staff.

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

Marianne Cantwell stated that there was no action required at this time.

A brief discussion ensued regarding plans for the next on-site meeting in October at Forrest City. Meeting adjourned at 11:29am.

/S/

Gary Simpson, Chief Executive Officer