

FPI BOARD OF DIRECTORS MEETING  
June 18, 2020

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on June 18, 2020 via teleconference.

**IN ATTENDANCE:**

David Spears, Chairman  
Donald R. Elliott, Vice Chairman  
Lee Lofthus, Member  
Audrey Roberts, Member  
Dee Reardon, Member

**QUORUM:** A quorum was present.

**ALSO IN ATTENDANCE:**

Michael Carvajal, Director, Bureau of Prisons; Commissioner, FPI  
Gene Beasley, Deputy Director, Bureau of Prisons  
Thomas Kane, Senior Advisor, Bureau of Prisons  
Patrick T. O'Connor, Chief Executive Officer, FPI  
Greg Burke, Senior Deputy Assistant Director, FPI  
Marianne Cantwell, General Counsel, FPI  
Ayima Ido, Acting Chief Financial Officer, FPI  
John Kardos, Acting General Manager, Business Development Group, FPI  
Carlos Davis, Chief, Information Systems Management, FPI  
Huba Papp, Project Manager, NTT DATA, Inc.  
Kia Smith, Administrative Officer, FPI

Chairman Spears called the meeting to order and thanked everyone for attending. He acknowledged the continued hard work and dedication of the staff during these challenging times. Director Carvajal informed the Board of the unexpected passing of Mid-Atlantic Regional Director Darrin (D.J.) Harmon. He noted that our thoughts and prayers are going to his family during this difficult time. Director Carvajal introduced Mr. Beasley as the new Deputy Director for the Bureau of Prisons (BOP or Bureau). He acknowledged and thanked FPI and BOP staff for their focus on responding to COVID-19. Director Carvajal also provided a brief overview of the agency's status during this pandemic. Mr. Beasley expressed how excited he was to be in his new role and that he was a big supporter of FPI.

**I. Chief Executive Officer Update**

Mr. O'Connor provided an overview of five key indicators: mission, financial perspective; customer perspective; internal perspective; and learning and growth perspective.

Mr. O'Connor updated the Board on FPI's response to COVID-19. FPI's Central Office staff remains on maximum telework schedules. Most FPI operations closed on April 1, 2020, with limited exceptions for the production of personal protective equipment (PPE) needed for the Bureau's COVID-19 response and U.S. Department of Defense (DoD) mission-critical items. Most operations reopened with reduced staffing on May 11<sup>th</sup>. FPI field staff at closed operations

moved to correctional staff duties. Several FPI Central Office secondary law enforcement staff were deployed to various institutions to support the Bureau of Prisons. In regard to the reimbursement of FPI by the Bureau for the use of FPI staff to perform Bureau correctional staff duties (augmentation), Senior Advisor Kane stated that the Bureau would take care of the reimbursement and that it would be forthcoming.

FPI operations have produced the following products in response to COVID-19: cloth face masks, non-surgical gowns, blankets, hand sanitizer, face shields, emergency water and milk, and door shields. The Fleet Business Group (FBG) operation at FCI Gilmer built a mobile shower/laundry trailer for the South Central Region. The Clothing and Textiles Group (CTG) operation at FCC Terre Haute designed and delivered door shields to FMC Fort Worth in less than seven days. The Services Business Group (SBG) operation at FPC Bryan has FDA approval as a hand sanitizer packing facility.

The BOP issued a national lockdown from June 1-8. All factories were closed and some FPI staff were deployed to Washington, DC as part of SORT teams. Mr. O'Connor acknowledged the Central Office Executive Staff and FPI Leadership Team who were assigned to 24-hour duty to support the SORT teams.

FPI received the final draft of the GAO report required under the First Step Act on June 11 with a positive review and no recommendations for FPI operations.

Mr. O'Connor highlighted notable personnel actions that occurred during recent months: Mr. Burke was promoted to Senior Deputy Assistant Director; Valery Logan was selected as Executive Assistant; and Bonita Mosley retired on May 23<sup>rd</sup>.

John Kardos provided an update on four potential business opportunities:

(1) FPI is looking at implementing a Prison Industry Enhancement Certification Program at FCI Three Rivers to manufacture a wood fiber plastic composite material. The activation for this project is targeted for the second quarter of 2021. This opportunity is expected to employ an estimated 85 inmates by year three, with annual wage billings of \$2.5 million. There are two components in the production process: raw material processing and an extrusion process. FPI hopes to enter new markets utilizing this versatile product.

(2) FPI is in negotiations with a clothing company to manufacture uniforms for the federal government. A pilot program would begin by producing coveralls at FCI Safford.

(3) Samples were submitted to the Defense Logistics Agency (DLA) in May for the MOLLE 4000 Ruck Sack. The potential inmate employment is estimated at 200 inmates.

(4) FPI is in talks with a major producer of boots and apparel for both military and commercial markets. This company is interested in reshoring products currently produced in China.

Mr. Elliott asked Mr. Kardos to put together a business development forecast for the Board.

Mr. Davis and Mr. Papp gave a status update on the SAP/Hana project. Product testing began on April 27 and is expected to end on July 10. Despite some defects found during product testing,

the project is on schedule. Mr. Davis noted that despite the deployment of some team members to the field to assist the Bureau in places where there were staff shortages due to COVID-19, the team was working well and the project remained on target. Mr. Davis also noted that the project remained on budget through May.

## **II. Chief Financial Officer's Report**

Ms. Ido emphasized that May turned out to be a relatively good month compared to what was expected. FPI closed the month of May with \$27.4 million in sales. This is \$6 million more than our most recent projection but \$36.7 million and \$27.4 million less than the Operating Plan and May 2019 results, respectively. The business groups that contributed the most to May sales were CTG, FBG, and the Office Furniture Group (OFG).

FPI closed the month of May with \$300 thousand in business group earnings before general and administrative expenses (G&A) as opposed to the forecasted \$3.6 million loss. This is \$6.1 million below plan and \$6.3 million below May 2019 results. G&A is slightly lower than the third quarter forecast and significantly lower than plan and May 2019 results. Other income was \$100 thousand below plan and forecast, but \$100 thousand higher than May 2019 results. Investment income is in line with the third quarter forecast but below plan and May 2019 results. FPI had a net loss of \$3.4 million for May. CTG, FBG, the Recycling Business Group (RBG), and the Services Business Group (SBG) had positive earnings before G&A. The Electronics Business Group, OFG, and the Agribusiness Group (ABG) operated at a loss.

Year-to-date (YTD) sales through May were \$270.7 million. This is \$12.7 million over our most recent projection but \$84 million and \$43 million below Operating Plan and prior year results, respectively. The business groups that contributed the most to the YTD sales were OFG, FBG, and CTG. YTD business group earnings before G&A were \$7 million over our most recent forecast but \$20.5 million and \$12.5 million below Operating Plan and prior year results, respectively. YTD G&A was slightly over prior year G&A and the third quarter forecast, but \$4.8 million below the Operating Plan. YTD other income was slightly higher than prior year results, but in line with the Operating Plan and third quarter forecast. YTD investment income was in line with our most recent forecast but below the Operating Plan and prior year results. Our third quarter forecast predicted a YTD net loss of \$5.8 million, but we ended up with net earnings of \$400 thousand. This was significantly lower than the \$16.9 million of earnings expected in the Operating Plan and \$14 million prior year results. The YTD earnings before G&A is distributed as follow: CTG = \$4.1 million, EBG = \$4.3 million, FBG = \$4.4 million, OFG = \$6.3 million, RBG = \$6.2 million, SBG = \$3.7 million, and ABG = \$100 thousand.

FPI's cash reserves increased by \$3 million since April. This is in part due to less disbursement to vendors and also due to less inmate salary payments. Prior to Covid-19, we disbursed about \$8 million on average weekly but because of Covid-19, our weekly average disbursement has decreased to about \$5 million. Inventory has been steady since April. FPI's accounts receivable balance appears \$5 million higher than our April balance because of last minute billings we were unable to collect due to our customer agencies collection restriction at month end.

The meeting was paused and the Board adjourned into an Executive Session.

## **III. Action Items/Legal Updates**

Ms. Cantwell discussed the dates and details of upcoming teleconference and in-person Board meetings.

The Board unanimously approved additional funding for the SAP S/4 HANA upgrade. The Board expects the project to be completed with the amount approved.

The Board unanimously approved the minutes from the April 22, 2020 Board meeting, with a revision to page 2, paragraph 3. “The project is on schedule” was changed to “The project is on track with the re-baselined schedule.”

The meeting adjourned.

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Patrick T. O’Connor, Chief Executive Officer