

FPI BOARD OF DIRECTORS MEETING  
August 20, 2020

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on August 20, 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:**

Thomas Kane, Senior Advisor, Federal Bureau of Prisons  
Patrick T. O'Connor, Chief Executive Officer, FPI  
Greg Burke, Senior Deputy Assistant Director, FPI  
Marianne Cantwell, General Counsel, FPI  
Stephanie Santucci, Controller, FPI  
Valery Logan, Executive Assistant, FPI  
Carlos Davis, Chief, Information Systems Management, FPI (attended during discussion of SAP S4/HANA)  
Huba Papp, Project Manager, NTT DATA, Inc. (attended during discussion of SAP S4/HANA)

Chairman Spears called the meeting to order and thanked everyone for attending. He acknowledged the continued hard work and dedication of FPI staff during these challenging times.

Mr. Kane notified attendees that he was present on Director Michael Carvajal's behalf as the Director was attending to business at the United States Penitentiary in Leavenworth, Kansas. Mr. Kane discussed inmate population trends. There are currently approximately 157,000 federal inmates. Of this total, 128,000 inmates are housed in Federal Bureau of Prisons (BOP) institutions, 14,500 inmates are in privately-managed facilities, and almost 14,000 inmates are in community-based facilities such as half way houses and home confinement. The inmate population in BOP institutions has decreased significantly in fiscal year (FY) 2020 due to the COVID-19 response. However, there are about 10,000 inmates in jails awaiting transfer to the BOP and admissions will pick up as the courts resume normal operations.

Mr. Kane also discussed COVID-19 trends. Among inmates, there are 1,400 active confirmed cases. Another nearly 10,000 inmates have recovered. As understanding of the disease has increased, the number of inmates hospitalized and on ventilators has decreased. We have had 114 inmates pass away from COVID-19 related illnesses. Over 7,500 inmates are on home confinement. This number has increased substantially as a result of authority provided to the BOP in the CARES Act to increase the use of home confinement.

Chariman Spears praised the job the BOP has done in containing COVID-19. He asked Mr. Kane if he was surprised that the numbers were lower than what some may have expected, as the potential could have been a lot worse. Mr. Kane emphasized that the BOP has diligently followed guidance from the Centers for Disease Control and Prevention (CDC). When COVID-19 started, nobody, including the CDC, knew how to optimally manage it. One of the key factors of containment is social distancing. We have found ways to social distance in open dormitory settings, with approximately 100 inmates in a unit sleeping in the same air pocket. We have worked hard to social distance, particularly in those environments. In medium and high security institutions, there are two inmates to a room, which has helped with containment. That amount of space has kept the infection at a lower level. We have added tents and other ways to separate more. Medical approaches have been very important and have evolved, namely identifying and isolating inmates who test positive and contact tracing. Those individuals potentially exposed are quarantined. Managing these groups is a real skill. We start a quarantine with 20 to 30 people, and if one gets sick, the rest of the group has to start the quarantine over. Our institution managers and staff have become more skilled at managing that and our medical staff have increased coordination with local health staff. All that put together has given us a lower level of sickness and hospitalization.

## **I. Chief Executive Officer Update**

Mr. O'Connor provided an update on FPI's key performance indicators.

Due to factory closures related to COVID-19, delinquencies are above FPI's FY20 target level. It is anticipated that the backlog will be approximately \$460 million at the end of the fiscal year. This will be a major challenge for FY21.

All year, FPI has maintained defect rates well below its FY20 target level. Since shipping has been limited, inventory turns are decreasing. Over 28,000 factory hours have been lost so far this year.

A hiring freeze was implemented, leaving FPI at 87% staffing. FPI will need to restart hiring in FY21 to ensure we have the staffing needed to reduce the backlog. It currently takes an average of 55 days to fill a position. The number of staff trained in FY20 exceeded FPI's target for the year. Before COVID-19, lost hours amounted to an average of 4.8 factories shut down per month. Since COVID-19 started affecting FPI's operations, an average of 40.6 factories have been shut down every month. Year-do-date, FPI has averaged 19 closed factories per month.

Mr. O'Connor updated the Board on key issues affecting FPI.

At the end of March, all FPI factories were briefly shut down. Several were reopened shortly thereafter to produce personal protective equipment (PPE) mainly for the Federal Bureau of Prisons. Many PPE items were produced, including hand sanitizer and masks. At this point, most PPE production has been completed.

Staffing is another key issue. Maximum telework was put into place on March 18. Phase 1 of the Central Office reopening started on July 13 with a goal of having approximately 25% of Central Office staff in the office each day. However, 21% of Central Office staff are on a

temporary job modification, which means they are approved for 100% telework until the Health Services Division determines it is safe for them to return. Factories not locked down due to COVID-19 have been running at 45% staffing. FPI lost between 250-300 inmates who were released to home confinement or regional reentry centers.

During COVID-19, consistent inmate employment has been a key issue. At a Warden's conference, COVID-19's impact on FPI's operations was explained. A plan was established for 80% of FPI inmates to be working by September 1, and 100% by October 1.

Ms. Roberts asked if the lockdowns were due to COVID-19. Mr. O'Connor responded in the affirmative and explained how in a couple cases, FPI has had their facilities taken over to help with COVID-19. He gave the examples of FCI Terminal Island's recycling factory having been repurposed as a dormitory and FPI's factory at FCI Elkton having been turned into a hospital by the National Guard.

Mr. Lofthus asked what the losses will be at the end of the fiscal year. Mr. O'Connor responded by describing best and worst case scenarios. Best case scenario would be to make a few million dollars. Worst case scenario would be to lose \$10-12 million. O'Connor stated he has been addressing with the administration that FPI has been augmenting BOP staffing without receiving reimbursement. FPI has put approximately \$2 million of labor to staff posts across the BOP. FPI is down \$5.4 million; if reimbursed, FPI could be down only \$3.4 million.

Mr. O'Connor mentioned the audit performed by the U.S. Government Accountability Office (GAO). He stated that FPI received the final draft in June. FPI sent recommended changes to the GAO in July and received the final report on July 29. There were no recommended changes related to FPI's operations. The report confirmed that customers are satisfied with FPI products and services. It was a neutral to positive report. It did point out some disadvantages we have in the market place. The GAO's only finding was related to overdue BOP recidivism research.

Mr. O'Connor discussed factory closures. FPI's factory at FCI Elkton is closing due to the end of a long-term contract. FPI's factory at FCI Memphis was mothballed because between lockdowns and necessary building repairs we were unable to make this factory profitable for the foreseeable future. FPI's factory at FCI Sheridan has been mothballed for five years. Because we have been unable to place new business in this factory, we will officially close this factory.

Mr. O'Connor also noted some key issues for FPI moving forward. The Fleet Business Group (FBG) recently received an additional \$29 million in orders for vehicle upfit from U.S. Customs and Border Protection and \$43 million over five years for range services for the Army. The Clothing and Textiles Group (CTG) received two awards totaling \$53 million over five years for physical training uniforms.

FPI has plans to open factories at FCI Aliceville, FCI Bennettsville, FCC Hazelton, and USP Pollock. Some of these openings have been delayed due to COVID-19 in part because we have been unable to have contractors come in to make necessary modifications or repairs.

FPI does not have the expertise required to effectively maximize advertising to potential customers. Conferences and trade shows are being canceled; therefore FPI has to find a way to

reach potential customers. A digital marketing request for proposal was announced resulting in FPI receiving questions from 31 companies.

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

July sales were substantially lower than was forecasted. The business groups that contributed the most to July sales were FBG, CTG, and the Office Furniture Group (OFG). FPI closed the month of July with \$3.9 million in business group earnings before general and administrative expenses (G&A), as opposed to the forecasted \$4.1 million. This is \$3.3 million below plan and \$1.9 million below July 2019 results. G&A is slightly above the fourth quarter forecast and slightly lower than the Operating Plan and July 2019 results.

Other income was within the Operating Plan and fourth quarter forecast, but \$200 thousand below July 2019 results. Investment income was in line with the fourth quarter forecast but \$300 thousand below the Operating Plan and \$100 thousand below July 2019 results. FPI had a net loss of \$300 thousand for July. All the business groups recognized earnings before G&A with the exception of the Agribusiness Group (ABG) and the Electronics Business Group (EBG). FBG, the Recycling Business Group (RBG), and the Services Business Group (SBG) exceeded their fourth quarter forecasts.

Year-to-date (YTD) sales through July were \$390.1 million. This is \$29.4 million below the fourth quarter forecast, \$175.9 million below the Operating Plan, and \$110.7 million below prior year results. The business groups that contributed the most to YTD sales were OFG, FBG, and CTG.

YTD business group earnings before G&A were \$4.3 million over our most recent forecast but \$31.6 million and \$20.4 million below Operating Plan and prior year results, respectively. YTD G&A was \$1.3 million high than prior year G&A and \$1.2 million over the fourth quarter forecast, but \$5.9 million below the Operating Plan. YTD other income was slightly higher than prior year results, but in line with the Operating Plan and fourth quarter forecast. YTD investment income was in line with our most recent forecast but below the Operating Plan and prior year results. July closed with a YTD loss of \$5.4 million. This was significantly lower than the \$21.7 million of earnings expected in the Operating Plan and the \$17.2 million prior year results.

FPI's cash reserves decreased by \$9 million since May and the accounts receivables balance decreased by \$5 million. This is due to an increase in inventory levels attributed to the backlog of orders. The backlog of orders since May has increased \$16.5 million, which increased inventory by \$18.5 million. If we compare July of 2019 with the current year, the current backlog of orders is 63% higher; with inventory 58% higher than the previous year.

Mr. Elliott asked Ms. Santucci and Mr. O'Connor about what was keeping them up at night regarding the financials. Ms. Santucci responded that FPI is working hard on the annual financial audit and staffing levels have gone down significantly over the past four months. Mr. O'Connor commented that FPI has little control over which operations are open on any given day.

Mr. Papp provided an update on the transition to SAP S4/HANA. The product testing phase has been completed. It was finished on time and successfully on July 10. The second round of mock migration started on time and is progressing mostly on schedule.

Systems integration testing is scheduled to start next week. They are working on a change request to modify the approach to closing out data for the April cutover. The project is still on track for an April 12, 2021 soft go live.

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

Ms. Cantwell discussed the dates and details of upcoming Board meetings. The next two meetings are scheduled for October 28 and December 16.

The Board unanimously approved the minutes from the June 18, 2020 Board meeting.

In order to better ensure that FPI work skills are up-to-date among releasing inmates with FPI experience, which is likely to enhance these inmates' post-release job prospects, the Board unanimously approved FPI's proposal to update its inmate employment goal. FPI's new goal is that 30% of the FPI inmate workforce will consist of inmates within 36 months or less of their release date.

The meeting adjourned.

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Patrick T. O'Connor, Chief Executive Officer