

FPI BOARD OF DIRECTORS MEETING
October 28, 2020

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on October 28, 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:

L. Cristina Griffith, Assistant Director, Human Resource Management
Division, Federal Bureau of Prisons
Patrick T. O'Connor, Chief Executive Officer, FPI
Greg Burke, Senior Deputy Assistant Director, FPI
Sean Marler, 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)

Mr. Elliott opened the meeting.

Ms. Griffith was present on behalf of Director Carvajal.

I. Chief Executive Officer Update

While the COVID-19 pandemic has been FPI's focus since March, we have also continued business development efforts. It has been a challenge. We maintained customers, such as the Defense Logistics Agency (DLA) and U.S. Customs and Border Protection (CBP). They have not only stayed with us, but have expanded their business for the upcoming year. We need to make sure we do not falter on those commitments.

We have tried to continue operations and programs wherever possible. One program we started prior to the COVID-19 pandemic was the Leadership Coaching Program through the George Washington University with 30 manager participants. It was designed to be a face-to-face training class. Instead of cancelling due to the pandemic, we adjusted the format to be conducted virtually. Two weeks ago, we had a graduation ceremony for the 28 FPI managers who completed the program.

We have been looking toward the future. Under the First Step Act (FSA), FPI is expected to increase the number of inmates employed over the next few years. However, in many places we cannot significantly increase the size of factories due to limiting factors, such as the number of inmates available to us at an institution. In fiscal year (FY) 2021, FPI plans to open factories at five institutions in which FPI is not currently operating.

A new project we are working on is digital marketing. Under the FSA, we were given the authority to sell to new types of customers. The problem with each of those is they are very segmented markets requiring us to knock on doors. With our cost structure, we cannot afford to do that. With digital marketing, we can digitally knock on doors. We contracted with a local firm to help us with branding and to have a unified presence and manage the message.

We have a number of potential opportunities that are under negotiation. For example, a call center company is interested in activating up to five call centers across the country, each employing approximately 150 inmates. We have a good history of inmates getting jobs with call centers after release. A company is exploring a repatriation project with FPI for the manufacturing of knock-down office furniture. The program is estimated to generate employment for 50 inmates. A metal manufacturer is reviewing a repatriation project. The company would like to produce various metal components to be used in the furniture industry. This program is estimated to employ 20 inmates.

Mr. O'Connor provided a review of FPI's key performance indicators. On inmate employment, FPI's FY20 target was 11,044 full time equivalent inmate worker positions. Due to the COVID-19 pandemic, FPI was unable to meet this target. However, FPI did meet its goal that at least 30% of the FPI inmate workforce consist of inmates within 36 months or less of their release date.

While FPI's Operating Plan for FY20 predicted \$566 million in sales, due to the pandemic we finished the year at \$363 million. We had a loss of \$3 million for the year. We need to give credit to all our staff in the field and in Central Office who went beyond normal efforts to make this happen. The business groups had to reduce expenses and make sacrifices. Without these efforts, the potential losses were in the tens of millions of dollars. Mr. Elliott requested that Mr. O'Connor let staff know that the Board is thankful for the work they have done. Mr. Lofthus echoed Mr. Elliott's comments.

Many of the numbers on FPI's key customer indicators were down in FY20. Due to the COVID-19 pandemic, FPI currently has a very large backlog of orders. The factories are determining how to work extended hours, alternating shifts, etc., to reduce the backlog. Mr. Elliott asked how the backlog is segmented or if it was in particular markets. Mr. O'Connor responded that the Office Furniture Group (OFG), Clothing and Textiles Group (CTG), and Fleet Business Group (FBG) account for 80% of the backlog.

In FY20, FPI did well on defect rate. Inventory turns dropped because we were not able to ship as much product out. FPI's lost hours goal was 5%. We had six times that, down 30% averaged across the entire year.

FPI held back on hiring in the second half of FY20; we are currently at an 87% staffing level. Our time-to-fill averaged 45 days. We exceeded our FY20 goal for number of staff trained. Our

recordable injury rate is 1.7 for the year. The average diversified industry rate is approximately 3.5, so working for FPI is one of the safer things you can do in American manufacturing.

Mr. Elliott asked if everything is in place for hiring. Mr. O'Connor responded in the affirmative. We have already started posting a lot of positions, and we are working with the Bureau of Prisons (BOP) to make sure we get people in as fast as possible. Ms. Griffith added that if there are priorities that are not being met, to let her know personally.

Before the COVID-19 pandemic, FPI had an average of 4.8 factories closed per month. After closures due to COVID-19 began, FPI averaged the equivalent of 41 factories being shut down. As of yesterday, we had eight factories completely down, with the remaining factories running at a 70% inmate complement, for an average of 64% capacity across FPI.

Ms. Reardon asked Mr. O'Connor if a plan and timeline had been mapped out for the backlog and, if so, what his estimation of success was. Mr. O'Connor responded that each business group has mapped out where they think they will be able to get to. This is going to be a huge challenge, mainly because we don't know to what extent COVID-19-related closures will affect our operations in FY21.

Ms. Reardon asked how we are handling customers getting product. Are we talking to them about their order priorities? Mr. O'Connor responded that we are being proactive with our customers and working with them to prioritize. Mr. Burke added that FPI's General Managers are regularly reaching out to customers and we have changed some of our production schedules. He noted that things are changing not day by day, but minute by minute.

Mr. Lofthus stated he was asked to bring up that Immigration has 19 orders for courtroom projects totaling between \$14-15M for furniture, case goods, and other supplies. Immigration court management is trying to get a sense of whether FPI will be able to deliver the products by the end of 2021. Mr. O'Connor responded that he is confident we will get the orders to them within that time frame. One of the issues has been that FCC Forrest City, where a lot of this furniture is manufactured, has been a COVID-19 hot spot. Mr. Burke reiterated that we feel confident about hitting deadlines through December 2021 and we have authorized overtime for production in order to help us meet these deadlines. Mr. Lofthus asked for another update at the next Board meeting.

II. Chief Financial Officer Update

Ms. Santucci stated that in putting the budget together, we start by looking at what we anticipated for FY20. We had to utilize FY19 because it was a better estimate. We had to consider when we anticipate being fully operational. Ms. Santucci reviewed earnings by category for FY20. FPI sustained a loss of \$3M for FY20. Ms. Santucci reviewed sales by business group and FPI liquid assets. She went on to review how FPI performed against the FY20 best and worst case scenarios.

Mr. Elliott asked if we have a peer group we can compare ourselves to. Mr. O'Connor responded that he will provide Mr. Elliott with those numbers. There are some databases that Mr. O'Connor can get info from that provide useful comparisons against most of our business groups, although he has difficulty finding information comparable to our Fleet Business Group.

III. SAP/HANA Update

Mr. Papp provided SAP HANA updates. Mock 2 was completed on August 27, which was two days late according to plan. The preparation for System Integration Testing (SIT) took two weeks longer than planned. SIT started on September 13: Cycle 1 was completed October 23; Cycle 2 started October 26. The defect count in Cycle 1 was lower than expected. We currently expect to complete SIT on time on December 11.

Mr. Elliott asked what the financial impact of not hitting the date is. Mr. Papp responded that it puts a lot of pressure on the phases after SIT. There isn't a lot of slack built into the schedule for those activities. Mr. O'Connor added that while there is schedule risk, there isn't any financial risk.

Mr. Papp reviewed training development and discussed the ECC system product and IVR upgrades scheduled for early November. Consultant Syniti, which is coming on board to perform work during the stabilization period during soft go live, will start November 2.

Mr. Lofthus asked what Syniti's role is. Mr. Papp responded that Syniti will be there to make sure all the data being used by FPI's current production system is being used the same way in the S4 Hana system before the final go live next fall. Mr. O'Connor added that they are a division of SAP. Mr. Lofthus asked how it was being delivered since users are all over the country. Mr. Davis responded that trainings will be conducted virtually over Microsoft Teams.

Mr. Elliott asked if we budget for training to be in person. Mr. Davis responded that we do. Mr. Elliott followed up, asking if there would be some savings based on the change in training delivery method. Mr. Davis responded in the affirmative. Mr. Elliott asked if we are within budget on this project. Mr. Davis stated that it looks like we are since there are no travel plans, which was a significant part of the budget.

IV. FY21 Operating Plan

Ms. Santucci discussed the Operating Plan for FY21. Invoiced sales are anticipated to increase 51% over FY20. Business group earnings after general and administrative expenses (G&A) are anticipated to increase 188%. Investment income is expected to be 35% lower in FY21.

Ms. Santucci discussed business group sales in FY18, FY19, and FY20 compared to what is expected for FY21. She went on to discuss anticipated corporate and business group earnings for FY21 as well as G&A expenses.

Chairman Spears asked what flexibility FPI has in slowing down the ramping up of G&A. Ms. Santucci responded that G&A is largely driven by staffing. Mr. O'Connor added that we have been very prudent over the past two years on bringing on personnel.

Mr. Elliott asked where the risk is in this plan. Mr. O'Connor responded that the risk is on the availability of inmates. We don't know when and where we will be temporarily shut down due to the pandemic. Ms. Santucci added that we have the orders, we just need to be able to manufacture.

Chairman Spears asked how FPI is managing profit sharing. Mr. O'Connor responded that we tried to come up with an Operating Plan that was achievable given what we know. We didn't want it to be too easy or difficult. We were trying to manage risks to give people a reasonable shot at making gainsharing.

Chairman Spears stated he knows a lot of work went into creating the Operating Plan and thanked the entire team. He requested that the Board's appreciation be shared with FPI staff.

V. Action Items/Legal Updates

Chairman Spears motioned to accept the Operating Plan as presented. The Board unanimously approved the Operating Plan.

Chairman Spears motioned to approve the draft minutes from the last meeting. The Board unanimously approved the minutes.

Ms. Cantwell confirmed the date of the next Board meeting and provided a tentative schedule for the Board meetings in 2021.

Ms. Cantwell noted that the National Defense Authorization Act is not going to be considered by Congress until after the election.

The meeting adjourned.

/s/

Patrick T. O'Connor, Chief Executive Officer