

FPI BOARD OF DIRECTORS MEETING
December 16, 2020

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on December 16, 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, Federal Bureau of Prisons
Gene Beasley, Deputy Director, 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)
Eric Rasmussen, Lead Audit Partner, KPMG (attended to present financial audit results)

Chairman Spears opened up the meeting.

Director Carvajal provided the Board with an update on the Federal Bureau of Prisons (BOP or Bureau). The BOP's inmate count continues to drop. Currently, there are approximately 153,000 federal inmates. The BOP has moved over 18,000 federal inmates to home confinement since March. The Bureau's COVID-19 numbers have increased along with the community. Today, we are at approximately 6,000 inmates with COVID-19, and over 26,000 who have recovered. We have approximately 1,700 staff with COVID-19, which is reflective of the community, and approximately 4,400 staff that have recovered. Hiring is a priority for us. The Bureau has hired about 3,500 staff this year. The BOP has started receiving vaccines for our institutions. We started with the most medically vulnerable institutions, which are FMC Fort Worth, FMC Carswell, FCI Seagoville, and FCC Butner. We are vaccinating staff first to create an umbrella or protection and then, as we get more vaccines, we will offer them to the most vulnerable inmates first. We do not decide how much of the vaccine we receive, that is determined by Operation Warp Speed.

I. Chief Executive Officer Update

Mr. O'Connor explained that COVID-19 is dominating FPI's daily life. During October and November, an average of 14 factories were closed each day. Facilities that do remain open, are operating at reduced inmate counts. When FPI created the fiscal year (FY) 2021 Operating Plan, conditions were gradually improving. While we anticipated a slow start in the first quarter, we were more optimistic in the second, third, and fourth quarter. For institutions running under modified operations, we are losing an average of 30 minutes of production time per day.

Mr. O'Connor emphasized that despite the current difficulties with COVID-19 shutdowns, FPI is continuing to work on business development to make sure we get new work. He highlighted several new business developments and mentioned that equipment produced by FPI at USP Marion was featured in Surface Warfare Magazine's story on the CIAT Training Center in San Diego.

Mr. O'Connor provided the Board with a review of FPI's key performance indicators (KPI):

KPI 1.0, Mission: Full-time inmate employment, while up slightly from FY20, is lower than our FY21 goal because we are not flowing as many inmates through the system. We have been able to meet the 30% goal of inmates with less than three years left on their sentences.

KPI 2.0, Financial Perspective: Two months into the new fiscal year we are 6% above plan for sales. Gross margins were one percent over target and one percent over last year's year end numbers.

KPI 3.0, Customer Perspective: On-time delivery continues to be a challenge due to COVID-19 closures.

KPI 4.0, Internal Perspective: Inventory turns were down a couple tenths of a percent. There were a lot of lost hours last year. If we continue at the current rate, we will be at 24,000 lost hours for FY21.

KPI 5.0, Learning and Growth Perspective: Open staff vacancies, FPI had 94 open staff vacancies at the end of FY20 and currently has 70. The time to fill continues to be good. Eighty days is OPM's standard time to fill. We have cut that down by half. The number of staff trained in FY21 is low at 95 because it is early in the fiscal year and we are just getting started. We have a lot of training coming up after the new year.

II. Chief Financial Officer's Report

Ms. Santucci provided the Board with an update on FPI's financials. The Operating Plan projects \$17.5 million in earnings for FY21, with business group earnings before general and administrative expenses (G&A) of \$68.3, and corporate G&A of \$58 million. The Operating Plan projects a 100% improvement in business group earnings in comparison to FY20 with an 27% increase in corporate G&A. Other income is expected to be about the same as FY20, and investment income is projected to decrease 37% from FY20 levels. Sales are projected to

increase 51% over FY20 levels. We expect to see the largest increases in the Fleet Business Group (FBG), Electronics Business Group (EBG), and Clothing and Textiles Group (CTG).

FY21 year-to-date (YTD) business group earnings, other income, and investment income were on track with the Operating Plan. Corporate G&A was \$8 million lower than the plan, which reduced the net loss to \$300,000 instead of the expected \$1.1 million. Overall, FPI's financial performance for the first two months of the fiscal year were better than anticipated.

At the end of November sales were at \$67.8 million, which is 8% below the previous year's results and 5.6% above the YTD sales plan. FPI's cash balance has declined as inventory levels have significantly increased. FPI's backlog continues to remain consistent. The largest share of inventory is for FBG, which has 55% of the inventory balance. Accounts receivables have declined slightly.

Chairman Spears asked Ms. Santucci at what point would she be concerned about inventory levels. Ms. Santucci responded that it is currently a concern and that we need to be mindful of our spending.

Mr. Elliott remarked that when Mr. O'Connor was providing updates the situation seemed bad, however, the financials do not seem as bad. Ms. Santucci responded that the first couple months were better than anticipated, and as long as FPI reaches the level of sales on a monthly basis and can remain operational, we will be fine. Hopefully vaccination helps. We are anticipating a second quarter decline.

Mr. Elliott asked if there was a plan for the backlog. Ms. Santucci stated that the largest proportion of the backlog is with FBG. The Office Furniture Group (OFG) has been working diligently to get orders out but has been unable to install many of the orders. It all depends on when the government is able to accept the orders. Mr. O'Connor noted that FBG's inventory was comprised primarily of high value vehicles, and as we move each vehicle, we move a significant amount of inventory out.

Mr. Elliott asked what percentage of the inventory was FBG's. Ms. Santucci responded that 55% of the inventory belongs to FBG, 22% is CTG's, and 19% is OFG's. Seventy-four percent of the inventory is in raw materials. Mr. O'Connor added that vehicles are purchased by the customer, transferred to us, we work on them, and then transfer them back; therefore, the sale of those are all accounted for. Mr. Elliott asked whether the vehicles are in one location or scattered across multiple locations. Mr. O'Connor responded that they are scattered, primarily at FCI La Tuna, FCI Bastrop, and FCI Gilmer. We recently had a situation where all three institutions were locked down at the same time. When a lock down hits one of those institutions, it affects our sales and inventory numbers. Chairman Spears asked if we have enough space to handle all the vehicles. Mr. O'Connor responded that, so far, we have enough space. Ms. Santucci added that FCI Bastrop can store about 2,000 vehicles.

III. SAP HANA Update

Mr. Papp provided the Board with an update on the SAP/HANA transition. We are wrapping up system integration testing (SIT), and anticipate completing it this week. We started Mock 3.

Yesterday, we started initial migrations. We are scheduled to go until Jan 29 with migrations. SIT defects will not affect the overall schedule.

We are also wrapping up training activities, which will be completed in January. Super User training is starting on January 11, 2021. We will be conducting the training virtually and do not anticipate any issues. People who are taking this training have heavily participated in SIT. They have seen the system and are used to using it.

Syniti started work on November 2nd. We have been tracking their clearances and potential risks. Some of the clearances have been delayed, which may have an impact on Syniti's schedule.

The bottom line is that this project is progressing on time, on budget, and we still project our "soft go live" of the new system to take place on April 12.

Chairman Spears stated that he appreciates all the hard work and to share the Board's appreciation.

IV. Financial Audit Summary

Mr. Rasmussen presented the annual financial audit results to the Board.

V. Action Items/Legal Updates

The Board unanimously approved the draft October 28, 2020 minutes, with one change.

The Board approved the 2021 proposed Board schedule. The next teleconference is scheduled for February 17, 2021.

Ms. Cantwell provided a legislative update, including discussion of the National Defense Authorization Act, which did not include language affecting FPI.

Ms. Cantwell mentioned she would be asking the Board to provide their annual financial disclosure forms and said she would be sending a follow up memo to them with the requested information and the deadlines.

The meeting adjourned.

/s/

Patrick T. O'Connor, Chief Executive Officer