FPI BOARD OF DIRECTORS MEETING
April 21, 2021

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on April 21, 2021, 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; Commissioner, FPI
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
Ayima Ido, 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 opened up the meeting.

Director Carvajal emphasized that it is important to him to keep FPI's operations up and running. He also provided updates on the Federal Bureau of Prisons (BOP or Bureau). The Bureau's hiring initiative is progressing. The goal is to fill 100% of open positions to get our staffing up. The Bureau has hired over 500 people since the recent hiring initiative began. Director Carvajal mentioned that he had participated in two oversight hearings in recent months. COVID vaccinations are progressing and we anticipate that all inmates will be offered a vaccine by mid-May.

I. Chief Executive Officer Update

Mr. O'Connor explained that COVID continues to be a major challenge. The vast majority of factories are running. Inmate counts are not yet at pre-COVID levels, but are increasing weekly. Last Friday, we only had three operations that were down. Two of those were COVID related.

Recovery is underway. In March, five of seven business groups met or exceeded their plan. In March, the Fleet Business Group (FBG) shipped 373 vehicles, significantly surpassing its forecasted shipping of 250 vehicles. FPI's backlog is decreasing.

All Central Office and field staff have been offered a COVID vaccine. A significant percentage of inmates have been as well.

We have several locations where activation activities are ramping up. We are putting a clothing and textiles operation in Phoenix. The Bennettsville facility is moving forward for FBG. Hazelton is moving along. Marianna's recycling is starting up. That institution is coming back online and as their population grows in capacity, we anticipate growing the recycling operation there. Williamsburg is on track. At the last meeting, I reported that Aliceville was going to make sleeping bags for an outside firm. When the company toured the facility, they liked what they saw and decided to have FPI produce tents for them as well. We expected to have about 150 workers, and now it is looking like that number will double. We are working with the Bureau on the possible relocation of the Yazoo City low factory to another building within the complex.

Customers are starting to reengage. Discussions reopened with a defense contractor on moving electronics work from Mexico. We are looking at doing some kitting in Phoenix and some wiring harnesses in Hazelton. With enough work, we can open in Tucson. A major optical firm is looking to relocate work from overseas. We have a meeting scheduled with them in June.

We recently launched the ULearn training platform. The digital marketing project is underway.

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

KPI 1.0, Mission: Our inmate employment numbers are below target levels, due largely to the number of camp and low security inmates moved to residential reentry centers (RRCs) and home confinement. We are just barely maintaining our 30% goal of inmates with less than three years left on their sentences because so many of them are eligible for home confinement or RRCs.

KPI 2.0, Financial Perspective: There is no way that we will hit our planned sales and earnings numbers, but we do have a forecast which exceeds last year's results. Our net income is -4.4 million, but that is an improvement as last month we were at -7.3 million. The gross margin is at our target.

KPI 3.0, Customer Perspective: On-time delivery, delinquencies, and backlog figures are not currently meeting fiscal year (FY) 2021 target levels. Some aspects of this are outside of our control. For example, the Office Furniture Group (OFG) has a fair amount of orders that are waiting for federal offices to reopen so they can make deliveries. We are making good progress on our backlog.

KPI 4.0, Internal Perspective: The defect rate, while above target, is trending in the right direction. We have had to move some inmates into areas and products that they were not used to making. There was a learning curve, which bumped our parts per million defect up. Since the last Board meeting, we have reduced our defect rate by almost 2,800 parts per million. People are getting used to being back at work and getting used to the new product. Inventory turns are still lagging and will continue to do so until we start making deliveries. Lost hours totals are better than what we hoped for. If we continue on the current course, we still have a chance of meeting our target. One of the things that is causing some lost hours is the slow down due to social distancing. It takes institutions longer to get the workers in and out for feeding.

KPI 5.0, Learning and Growth Perspective: We have 97 positions open, which is a bit higher than the first of the year, but we have been trying to control our hiring. Once we start getting into the profitable range, we will speed it up a bit. Our time to fill has been very good. Our staff training is well ahead of the rate needed to meet the target at the end of the year. The recordable injury rate at 0.6 makes us one of the safest manufacturing facilities in the country. Last year, the national average was 3.5 and we came in at 0.8.

II. Chief Financial Officer's Report

Ms. Ido provided the Board with an update on FPI's financials.

March 2021 sales exceeded both the plan and last year's sales by about $2 million and $0.4 million, respectively. All business groups, except for the Clothing and Textiles Group (CTG) and the Electronics Business Group (EBG), exceeded their plan and most also exceeded last year's actuals. March 2021 sales are 55% higher than February 2021 sales ($48 million vs. $31 million) and 306% higher than January 2021 sales ($48 million vs. $15 million).

March 2021 sales brought in about $6.1 million in total business group earnings, before general and administrative expenses (G&A). This is in line with both the plan and last year's March earnings. G&A for March was slightly below last March's actual expenses, and $1 million below plan. Other income for March was about $100,000 below both the plan and last year's actual. Investment income is in line with the plan, and about $100,000 below last March's actual. FPI closed March 2021 with net earnings of $2.9 million ($0.3 million and $1.1 million over last year's March net income and the plan net income, respectively).

The Fleet Business Group (FBG), Office Furniture Group (OFG) and Recycling Business Group (RBG) contributed the largest amounts to the March 2021business group earnings before G&A ($2.2 million for FBG, $1.6 million for OFG, and $1.1 million for RBG).

As mentioned during the last Board meeting, we developed a mid-year forecast to better reflect FPI's current performance level. We now anticipate closing the year with $433.7 million in sales ($115.7 million below the amount predicted in the Operating Plan, but $70.5 million above last year's total sales). Only OFG is expected to outperform both the original plan and last year's sales. All other business group sales are expected to be below the original plan, but over prior year's actual sales.

We expect to bring in about $47.4 million in business group earnings before G&A. That's about $13.3 million over FY20 business group earnings, but $21 million below the original FY21 Operating Plan. G&A is now expected to be $4 million less than originally planned but about $8 million over FY21 G&A.

Mr. Lofthus asked how we anticipate closing the year with $47.4 million in business group earnings before G&A when our current year-to-date (YTD) earnings are only $17 million. Ms. Ido responded that we anticipate averaging about $42 million in sales monthly for the rest of the fiscal year, which should generate about $5.1 million in business group earnings before G&A, totaling approximately $30.6 million over the next six months, which would allow us to reach $47.4 million.

FY21 YTD business group earnings before G&A are about $10 million below both FY20 YTD earnings and the FY21 Operating Plan. G&A is at the same level as FY20 YTD G&A, and about $3 million below plan. YTD other income is at the same level as both the Operating Plan and FY20 YTD other income. YTD investment income is at the same level as predicted in the Operating Plan, and $1.6 million below FY20 YTD investment income. This is due to the current lower interest rate. The net loss of $4.4 million is a reflection of poor performance in January and February, due to the national lockdown because of the pandemic.

Our current FY21 YTD sales are $47.4 million and $44.6 million below plan and prior year sales, respectively. The Agribusiness Group (ABG) seems to be the only business group unaffected by the pandemic. OFG and RBG outperformed their planned YTD sales, while all other business group did not meet either planned or prior year actuals.

FBG, OFG, and RBG contributed over 85% of the business group earnings before G&A ($5.5 million, $5 million, and $4 million, respectively). The Services Business Group (SBG) contributed $2.8 million, while CTG, EBG, and ABG contributed a minimal amount.

The accounts receivable (AR) balance as of March 31, 2021 is looking favorable. March AR is $2 million higher than February, but this balance is down by $5M as of today's date because FPI had the funds as advance and cleared it as soon as the month closed. Inventory levels are decreasing consistently. Cash levels are beginning to increase in correlation with the decrease in inventory levels.

III. SAP HANA Update

User Acceptance Testing (UAT) was completed on schedule on March 5, 2021. Three defects were carried into March for resolution and final testing. These were non-critical defects that would not affect deployment and go live. Deployment activities started in February. Installation and configuration activities started on February 8.

We encountered an issue when attempting to install support packs, which delayed the project by three weeks. Support packs were not copying over the network and would not update our HANA servers. We consulted with DOJ NW Engineering, the NW Carrier, and SAP to determine a fix. A new approach was implemented that immediately fixed the issue and allowed us to proceed. We have been performing according to the new plan ever since. The planned "soft" go live date is May 6, 2021.

The deployment scope was refined to a "soft" Go Live requirement. ECC data from February 28 was copied, rather than using the latest data from just before the cutover. This decision was made in order to avoid bringing down the enterprise resource planning (ERP) system for 4-6 days. This allowed us to avoid major impacts to business operations. We determined this was acceptable because we are not going fully live with HANA in April. Soft go live is more like a mock go live.

The schedule delay had no cost impact to the program. We worked with Accenture to revise the resource roll-off plan; the contract finish date has not been extended. The post-production support (PPS) period has been shortened from five to two weeks. Knowledge transfer activities have been reduced and will focus on areas of higher risk and steeper learning curve. Some additional risks have been identified and are being monitored very closely. Project costs are still within budget.

Chairman Spears expressed the Board's appreciation for Mr. Davis's and Mr. Papp's leadership and everything the team has done to stay on time and on budget.

IV. Action Items/Legal Updates

The Board unanimously approved the meeting minutes from the February 17, 2021 Board meeting.

The Board of approved a resolution authorizing funding for First Step Act market research.

The meeting adjourned.

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Patrick T. O'Connor, Chief Executive Officer