FPI BOARD OF DIRECTORS MEETING
June 16, 2021

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on June 16, 2021, via teleconference.

IN ATTENDANCE:

David Spears, Chairman
Donald R. Elliott, Vice Chairman
Lee Lofthus, Member
Audrey Roberts, 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
Sean Marler, Deputy Assistant Director, FPI
Kim Armfield, Acting Senior Deputy Assistant Director
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 provided an update on the Federal Bureau of Prisons (BOP or Bureau) population, COVID rates, and hiring. He informed the Board that there are approximately 129,000 federal inmates in 122 BOP institutions with a little over 9,000 federal inmates in private prisons. The BOP is down to six contracts with private prisons. By the end of 2022, it will be out of private prisons completely. There are approximately 6,600 federal inmates in residential reentry centers and approximately 7,100 on home confinement. To date, we have placed over 26,000 on home confinement under the Cares Act, which significantly impacted our bedspace. We are taking advantage of that by shuffling some people around and trying to keep populations down in our open dorms. COVID positives are down to 100 inmates and 125 staff. Most instiutitons are up and running but on modified status due to current CDC guidance. We have administered over 193,000 vaccine doses. A little over 53% of staff and 62% inmates are fully vaccinated. All staff and inmates have been offered the vaccine. We tend to see that vaccination rates mirror the geographic community. We have done video messaging and public service announcements to encourage people to get vaccinated.

The hiring event that was mentioned at the last Board meeting was very successful. We hired over our goal of 1000 in a 120-day period. With that comes the challenge of the budget and being able to pay for those positions. Staffing has been one of our biggest challenges for many years now. We have proved that we can hire them, now we just have to make sure we have the resources to pay them. We are working with new administration on that and appreciate their help. They have been very supportive. The Director noted that it is a priority of his to keep FPI's operations up and running.

I. Chief Executive Officer Update

The impact of COVID has been declining. During May, we had an average of less than two factories down due to COVID. Overall, we averaged the equivalent of 4.4 factories down per day for all reasons (e.g., weather and lockdowns), which is the lowest in the past year and a half. The majority of factories are operating at 80% of pre-COVID inmate staffing levels or better. Right now we have two factories down, at Atlanta and Forrest City, which are both down for security reasons.

Our expansions are on schedule. We are currently expanding or starting up operations at Bennettsville, Hazelton, Marianna, Williamsburg, and Aliceville. Aliceville and Bennettsville should be coming on line in July.

Mr. O'Connor mentioned that he visited Hazelton and Cumberland in May, and that he has a west coast trip scheduled for the end of June that will include visits to FPI operations at Victorville, Atwater, and Dublin and meetings with potential customers.

Ayima Ido, our Chief Financial Officer, is leaving for the State Department as a Foreign Service Financial Management Officer.

The annual KPMG audit is underway and moving forward without any major issues to date. We have a few Notices of Findings and Recommendations (NFRs), but nothing major. We should clear all of them by the end of the audit.

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

KPI 1.0, Mission: While the number of full time inmates is up from last year, we are below our target. We expect to meet the target number, or be close to it, by the end of the fiscal year. Total inmates will depend on that and it is also based on how many inmates come in and out. We are currently slightly below our goal of 30% of inmates being within 36 months of release. The main reason is that since the start of the pandemic, a lot of inmates who were within 36 months of release have been released to residential reentry centers and home confinement. We lost approximately two to three thousand workers in a short time. We are working diligently with our waiting lists to build back up.

KPI 2.0, Financial Perspective: We exceeded our mid-year sales forecast; however, we were $100,000 below our forecast on net income. We ran more overtime than anticipated while trying to get backlog orders out.

KPI 3.0, Customer Perspective: Our on time delivery is down from last year due, in large part, to a mission change at the Coleman camp from females to males. While we have sent staff from other locations down to Coleman to help keep things rolling, it has been a challenge to get new inmates hired and up and running. The way the Office Furniture Group (OFG) works, when Coleman is unable to ship product, it also delays shipments at four other plants. Fortunately, the inmate employment at the Coleman camp has doubled each week for the last two weeks, and at this rate, we should be back to normal by end of the month. Our overall backlog is still high, but we have reduced it $86 million since the beginning of the year, so we are working it down.

KPI 4.0, Internal Perspective: We are meeting our goal defect rate. Inventory turns continue to be low, which is tied to on time deliveries. We had a fiscal year (FY) 2021 goal of staying below 20,000 lost hours. If we can continue at the rate we experienced in May, we will meet the goal for the year.

KPI 5.0, Learning and Growth Perspective: We are higher than our target number of open staff vacancies because we were optimistic when we made our plan, not anticipating that there would be a second wave of COVID. We have managed to stay even with where we were at the beginning of the year with 94 staff openings. We have hired on a very targeted basis, adding people in key positions. Our time to fill has been extremely good. We are at 32 days to fill versus the Office of Personnel Management's baseline recommendation of 80 days. While the number of staff trained appears low, we anticipate meeting this goal before year end. FPI's recordable injury rate is 0.7, which is even lower than last year. Working in our factories are among the safest factories in the country to work. Everyone has done a great job emphasizing safety.

We had discussed in October that we were starting up a digital marketing program. It has been underway. The idea was to come up with a unified plan to integrate the marketing to use technology to get sales. We put together an integrated plan with our vendor. We are working on landing pages for the marketing plan and a new website. Our current site is good at providing information but not great at telling potential customers how to order or work with us. We are also working on collateral materials to go with the marketing plan so everything is unified.

Currently, we don't have any official social media pages. On some social media websites, when someone indicates that they have worked for an entity, a page is created for that entity hoping that the entity will claim the page and start managing it. That is what we are going to do. Our digital team will be taking ownership of the FPI LinkedIn and Facebook pages so we can manage them within the guidelines that the government has regarding what we can do on social media.

We are doing targeted digital ads. We do not have a lot of advertising money, so we are targeting the people who are the most likely to buy from us. We will also be increasing the analytics we do on our landing page in order to optimize how we present to people.

II. Chief Financial Officer's Report

May 2021 sales exceeded both forecasted and 2020 May sales by approximately $1.7 million and $20.2 million, respectively. May sales yielded $2.9 million in total business group earnings before general and administrative expenses (G&A), which was approximately $2.6 million over prior year earnings but $1.1 million and $4 million less than forecasted and planned earnings, respectively. The Fleet Business Group (FBG) and Recycling Business Group (RBG) contributed the most to the May business group earnings before G&A.

G&A for May 2021 was slightly below G&A for May 2020 and $0.5 million below both planned and forecasted G&A. Other income earned in May 2021 was at the same level as other income earned in May 2020 and $100,000 below both plan and forecasted other income. Investment income for May 2021 was in line with the amount forecasted and about $100,000 below plan and May 2020 investment income.

We expect to close FY21 with $433.7 million in sales ($115.7 million below the Operating Plan's predictions but $70.5 million above FY20 total sales). FY21 business group earnings are expected to be approximately $13.3 million over FY20 business group earnings. FY21 G&A is expected to be $4 million less than originally planned but about $8 million higher than FY20 G&A.

FY21 year-to-date (YTD) sales exceeded the mid-year forecast by $3.1 million but are $67.1 million and $2.7 million below the Operating Plan and prior year sales, respectively. The Agribusiness Group (ABG) continues to be the only business group unaffected by the pandemic. The Office Furniture Group (OFG) and the Recycling Business Group (RBG) outperformed both their planned and forecasted YTD sales.

FPI's FY21 YTD business group earnings before G&A are $24.8 million ($2.7 million less than forecasted and $4.3 million and $15.6 million less than FY20 YTD business group earnings before G&A and the Operating Plan, respectively). RBG contributed nearly 40% ($9.4 million) of the total $24.8 million FY21 YTD business group earnings before G&A. FBG, OFG, and the Services Business Group (SBG) contributed the remaining 60% or $15.1 million FY21 YTD business group earnings before G&A.

FY21 YTD G&A is lower than forecasted, planned, and FY20 YTD results (by $1.6 million, $5.7 million, and $2.1 million, respectively). Year-to-date other income is more or less at the same level as both plan and prior year-to-date income. Year-to-date Investment income is at the same level as forecasted, but 50% below prior year's. This is due to the current lower interest rate. The net loss went down by $0.6 million from $4.4 million as forecasted. If everything continues to move in this direction, we will break even as anticipated in our mid-year forecast.

The liquid assets balances are favorable. For the past two months the accounts receivable (AR) balance has remained low. Our inventory level continuous to decrease consistently with the uninterrupted operations. Though cash is still relatively low, it's been increasing since January in proportion with the decrease in inventory level.

Mr. Lofthus mentioned that the Department of Justice has been charged by the new administration to rethink "the future of work." We have tens of thousands of people who have teleworked for the past 15 months, while staff in our prisons never left. The administration is asking agencies to plan for a future workplace where some portion of people may never come back to the office. He emphasized that FPI should start to think about the future. For example, what happens to OFG if agencies are buying less furniture because they have fewer people in the office? The agencies have been asked to submit plans by July 19 for their future work place. Mr. O'Connor responded that FPI is looking at things like that. So far, nobody has given OFG plans that affect orders they have now. FBG is looking to see what it would take to upfit electric vehicles.

III. SAP HANA Update

We completed the production rollout of SAP S/4 HANA on May 4. Accenture completed and submitted all deliverables. All data from ECC (our legacy system) was transferred. There were no issues during the Accenture post-production period.

Syniti conducted and completed Mock 1 on May 10, and it went smoothly. Syniti started Mock 2 on May 10. Data migrations were completed June 11. Data transfer success rate is over 99.5%, which is an excellent indicator since this is the first full data load. This shows that the data was in good condition. The defect rate is much lower than typical projects at this stage. Delays of approximately one week have occurred, but it has provided an opportunity to refine data loads and continue to cleanse data. There are no delays to the overall program. The Go Live is scheduled for November.

Mock 3 will start on June 28. We expect extensive participation by FMB. The third quarter close and audit present resource challenges for us to overcome and plan around. Project costs are still within budget. Mock 4 is going to be a dry run and will allow us to see what the migration will look like in November.

IV. Action Items/Legal Updates

The next teleconference is scheduled for August 19, 2021. On October 20, 2021, we have a face-to-face meeting scheduled. Location is yet to be determined.

The Board unanimously approved the meeting minutes for the April 21, 2021 meeting.

The meeting adjourned.

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Patrick T. O'Connor, Chief Executive Officer