FPI BOARD OF DIRECTORS MEETING
February 16, 2022

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on February 16, 2022, via teleconference.

IN ATTENDANCE:

Donald R. Elliott, Vice Chairman
Lee Lofthus, Member
Audrey Roberts, Member

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

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
Edward Porras, Chief Financial Officer, FPI
Stephanie Gatz, Deputy Chief Financial Officer, FPI
Valery Logan, Executive Assistant, FPI
Lin Burton, Chief Learning Officer, FPI (attended during discussion of staff training)

Mr. Elliott chaired the meeting.

Mr. O'Connor provided the Director's comments. The national lockdown is the main thing going on in the Federal Bureau of Prisons (BOP or Bureau) that is affecting Federal Prison Industries (FPI). There was an incident at USP Beaumont where several inmates were killed during a fight due to a power struggle between different factions of the MS-13 gang. All institutions were locked down based on intelligence that there would be more attacks nationally. As a result, the Bureau is relocating approximately 2,000 inmates to keep gang factions apart in order to prevent possible attacks. As of last week, most institutions began coming back online. The Director has made it a priority for institutions with FPI factories to be the first to come up. There are no new updates on when a new Director will be selected.

I. Chief Executive Officer Update

Mr. O'Connor provided the Board with an update. FPI was doing well in early December, but the omicron wave of Covid-19 cases and the national lockdown devastated operations in December, January, and February. The national lockdown reduced shipments by $19 million. We will attempt to catch up with overtime where we can.

Mr. Elliott asked when FPI will we be back up to pre-lockdown production and pre-COVID production. Mr. O'Connor responded that FPI will likely be at pre-lockdown levels within a week. It will not get back to pre-COVID production levels until there are changes in restrictions, since institutions can go up and down quickly based on cases. Mr. O'Connor indicated that in the best case scenario FPI would be back to pre-COVID levels in three to six months.

There are continuing non-COVID challenges for FPI. Supply chain shortages have affected all groups, especially Fleet and Print factories due to the chip and paper shortages. There are a lot of vehicles that have delayed shipment from manufacturers.

Inflation has affected all groups. We tried to anticipate inflation for this year, but we predicted approximately four to five percent, not the nine to ten percent that we are seeing.

Another challenge we are facing is labor shortages at camps and some low security institutions. FPI's inmate waitlists have decreased dramatically due to releases to residential reentry centers (RRCs) and home confinements. Something we hope will help us is that while Reentry has not completed all the needs assessments under the First Step Act, the vast majority of them reflect the need for work experience, which FPI can fulfill.

Mr. O'Connor noted that since the last Board meeting he has not traveled much due to the wave of Covid cases caused by the omicron variant and he had to reschedule some travel to a later date. FPI has done a lot of work on our lessons learned from the transition to SAP S/4HANA. Mr. O'Connor has also spent a lot of time working with Lehigh University on a grant proposal for the "Good Jobs Challenge" solicitation from the Commerce Department. The program Lehigh University is trying to get is to bring more technology into learning using augmented reality to help train. Part of their system will be for a correctional setting. Part of that will be an alliance between Pennsylvania, Maryland, Delaware, and West Virginia Departments of Corrections. Mr. O'Connor liaised with the Deputy Secretary of Commerce to facilitate the proposal.

On Monday, February 28, 2022, 28 FPI staff members graduated from the leadership training program given by The George Washington University. This is the second class to graduate in the past two years. It has been a successful program. It allows us to get some training outside of the Bureau of Prisons.

Part of the First Step Act required the Attorney General's office to conduct a study on purchases done by federal agencies overseas that could possibly be done by FPI. BOP is funding the study and FPI is doing the procurement. Responses to FPI's request for proposals have been received and are being evaluated. We will likely have an award issued by the end of the month.

At the last Board meeting, KPMG reported on the fiscal year (FY) 2021 audit. This past week we had the FY22 KPMG Audit Entrance Conference.

On February, 24 2022, Mr. O'Connor is scheduled to visit Fairton regarding injection molding of eyeglass frames. The majority of frames being sold to the Department of Defense and the BOP are not in compliance with the Berry Amendment and the Buy American Act. They have been working off waivers since nobody in the United States makes them.

On April 5-8, 2022, Mr. O'Connor is scheduled to visit four facilities in the North Central Region: FCI Milan, FCI Pekin, FCC Terre Haute and USP Marion. Mr. O'Connor will be attending the National Correctional Industries Association (NCIA) conference from April 10-13.

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

KPI 1.0, Mission: The number of full-time inmate workers is lower than FPI's FY22 target due to COVID. We are also below our goal on the percentage of inmate workers within three years of release because we lost so many inmate workers to RRCs and home confinement.

KPI 2.0, Financial Perspective: We are behind our year-to-date (YTD) target for sales, but are $25-30 million ahead of this time last year. We currently have a loss of $4.5 million, but are ahead of our budgeted loss of $5.1 million. We have a backlog of purchase card statements that has not cleared yet which will probably lower the loss by another $2 million. This was heavily affected by the national lockdown and having our field staff pulled to work custody posts.

KPI 3.0, Customer Perspective: FPI's on-time delivery rate is about two percent higher than last year. However, it is still lower than our target rate.

KPI 4.0, Internal Perspective: FPI's defect rate is very good. Inventory turns ticked up slightly. Lost hours looked good through January. Unfortunately, we will double that number because of the loss of hours in February. It will be challenging to make the FY22 target of fewer than 20,000 lost hours for the year.

KPI 5.0, Learning and Growth Perspective: Open staff vacancies are higher than our target, largely due to retirements at the end of 2021. Our time to fill has gone up a bit; however, it is well under the U.S. Office of Personnel Management's (OPM) standard of 80 days. We are doing well with staff training. To date, we have 355 staff trained, exceeding our target of 243. The recordable injury rate has gone down. We are doing a great job of keeping the workspace safe.

Mr. Elliott asked what we have learned through these challenges and whether FPI will come out of this stronger, weaker, or the same. Mr. O'Connor answered that our challenges will make us come out stronger. We are learning to be more efficient. It has forced people to be more versatile and it has been a lesson in adaptability.

II. Chief Learning Officer's Report

Ms. Burton provided an update on ULearn, FPI's learning management system. Built into the product itself was a connection to LinkedIn Learning. Up until about a month ago, we had limited licenses. COVID has been an advantage for us in learning development to really move ahead. We are about a year ahead of where we thought we would be with this tool. We have gone enterprise wide. We created a custom page where staff can select a topic, which then takes them to a library in three levels: up to GS-12, up to GS-15, and up to SES.

Mr. Elliott asked the length of an average course. Ms. Burton explained that it is dependent on the content. It could be as much as 40-80 hours. If you look at something like Franklin Covey, they try to have the average course length between 30-60 minutes.

III. Chief Financial Officer's Report

Mr. Porras provided an update on FPI's financials.

FPI sales through January were below plan by 14% at $132.3 million. This is largely due to lower than expected sales by the Fleet Business Group (FBG) and the Clothing and Textiles Group (CTG). Several factors affected our sales, including some factories facing COVID restrictions, material shortages due to shipment delays from vendors, and the recent national lockdown. Overall, the actual YTD sales of were still well above the YTD FY21 sales of $106.3 million.

We expect sales to increase as pandemic restrictions are loosened, and our locations start to resume normal operations and work to eliminate customer backlogs. The backlog of customer orders remains strong at $476 million.

Mr. Elliott asked how much of that shortfall variance is due to timing and how much is due to lost opportunity. Ms. Gatz responded that most of it is timing with all the shutdowns and delays, as well as the shipment delays for FBG.

Earnings through January before general and administrative expenses (G&A) were $11.0 million. Earnings were lower than predicted due to lower sales results. The FBG, CTG, and Recycling Business Group (RBG) contributed the majority of these earnings. Some of the earnings are due to delaying planned expenses related to non-capitalized purchases of machinery and equipment and roof repairs.

G&A was below plan but in line with the lower sales volume. Other income were above plan by 20% at $5 million, which is related to an increase in Office Furniture Group (OFG) service revenues. Investment income is in line with planned levels, however, it is below FY21 results and will continue to be low given the low interest rates. We have a total net loss of $4.6 million, however this loss should be reduced to around $2.5 million once the backlog of purchase card statements are cleared from the overhead account.

Our cash levels have dropped from $238 million on September 30, 2021 to $208 million on January 31, 2022. The primary drivers of this decrease include a $17 million decrease in deferred revenue (advance payable), a $4.5 million net loss, and a $2.7 million decrease in accounts payable. The deferred revenue is attributable to customer advance payables on hand primarily for the upfitting of vehicles for the Department of Homeland Security. We are monitoring our expenses and the way we disburse our funds to ensure we manage cash based on our risk tolerance. The monitoring has led to a reduction in accounts payable from FY21 to FY22, with only essential materials and supplies being purchased.

Inventory has levelled off over the past few months with slower incoming materials and shutdowns slowing the outgoing of shipments. CTG, OFG, and FBG have inventory nearly double their planned levels but are supported with the customer backlog of orders.

Accounts receivable is steady at around $27 million, and is slightly down with lower shipments to customers and the slowdown of projects in the interagency procurement services group.

Mr. Elliott asked what keeps the Financial Management Branch up at night. Mr. Porras responded with costs. We need to monitor and analyze how we manage our costs.

IV. SAP HANA Review

Mr. O'Connor informed the Board that he had asked a group to review the lessons learned from the SAP S/4HANA implementation. The group comprised of Huba Papp (Program Manager, NTT Data), Robert Kachursky (DOJ Justice Management Division), and Sam Rose (Procurement Executive, FPI). Mr. O'Connor provided an overview of the findings of the group.

V. Action Items/Legal Updates

The Board unanimously approved the draft meeting minutes for the December, 2021 Board meeting.

The next meeting is scheduled for April 20, 2022.

The meeting adjourned.

/s/

Patrick T. O'Connor, Chief Executive Officer