A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on May 1, 2025.

IN ATTENDANCE:

David Spears, Chair
Donald R. Elliott, Vice Chair
Jolene Lauria, Member
Lee Lofthus, Member
Dee Reardon, Member
Monty Wilkinson, Member

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

William K. Marshall III, Director, Federal Bureau of Prisons; Commissioner, FPI
Seth Bogin, Chief of Staff, Federal Bureau of Prisons
Oleta Vassilopoulos, Acting Assistant Director/Chief Executive Officer, FPI
Jim Mitchell, Acting Deputy Assistant Director of Operations, FPI
Marianne Cantwell, Acting Deputy Assistant Director of Support Groups and General Counsel, FPI
Steven Thaler, Assistant General Counsel, FPI
Edward Porras, Chief Financial Officer, FPI
Vikram Sighamony, Acting Procurement Executive, FPI
Rigo Curiel, General Manager, Electronics and Fleet Business Groups, FPI
Valery Logan, Executive Assistant, FPI
Deloran Lyles, Program Manager, Business Development Group, FPI

Chairman Spears opened the meeting.

Mr. Spears thanked everyone for their participation and welcomed the Board members. He extended a special welcome to Director Marshall and emphasized the importance of engagement from the Director's Office.

Director Marshall thanked the Board for their welcome and discussed early onboarding impressions. He expressed enthusiasm about future collaboration with the Board and FPI leadership.

I. Assistant Director/Chief Executive Officer's Report

Ms. Vassilopoulos presented an update on FPI's current financial and operational standing. She reported that while the organization is showing a positive operational outcome at the midpoint of the fiscal year, performance remains mixed across business lines. Some business groups continue to perform well, while others are under review for persistent underperformance.

She emphasized that, although FPI's corporate profit appears strong, a significant portion of it continues to be driven by investment income rather than business operations. Leadership remains focused on improving operational results to reduce reliance on investments for financial stability.

Ms. Vassilopoulos noted that while progress has been made since the previous Board meeting, particularly in increasing the number of profitable business lines month-over-month, further improvement is necessary to meet long-term sustainability goals.

Operational Improvements: The organization continues to implement cost optimization measures, including targeted site visits and data reviews at facilities showing persistent losses. These assessments help identify inefficiencies in operations and support more accurate pricing and cost controls.

Particular attention is being paid to the Clothing and Textiles and Electronics business groups, both of which remain challenged. Management is working to identify corrective actions and possible structural changes to address ongoing issues.

Ms. Vassilopoulos noted that FPI will need to maintain focus on improving operational results due to the anticipated decline in investment yields over time.

Mr. Elliott asked if the improvements seen in March are sustainable trends or a one-month uptick. Ms. Vassilopoulos responded that while March's results were promising, sustained improvement will depend on continued progress in Fleet operations and the Agribusiness Group. Early signs from both groups are encouraging, but ongoing monitoring is necessary.

Chairman Spears made a comment for the benefit of the Director that the Board has always tried to balance FPI's mission with its fiduciary responsibility. They've had to make difficult decisions, such as closing factories when needed, but they also want to support rehabilitation and inmate employment. The consistent and reliable financial reporting from FPI leadership under the current leadership has provided a major improvement over previous FPI leadership.

Personnel Updates: Personnel levels remain stable, with minimal change compared to the previous year. A hiring freeze for non-law enforcement positions continues but has had limited impact due to FPI's field-heavy staffing model.

The Board was introduced to Mr. Sighamony, FPI's Acting Procurement Executive, who brings significant federal contracting experience to the role.

Mr. Lofthus also highlighted ongoing efforts to increase accountability and track employee performance more closely through new systems.

General and Administrative Expenses (G&A) and Efficiency Targets: FPI leadership reviewed historical and benchmark data related to G&A. The organization has established a short-term G&A ceiling to provide financial discipline while allowing flexibility for operations. Long-term goals include further reductions through automation, predictive analytics, and operational restructuring.

Board members encouraged management to remain aggressive in pursuing cost efficiencies, particularly in current economic conditions.

II. Financial Update

Mr. Porras presented a financial overview for the first half of fiscal year (FY) 2025, covering performance through March 31. He noted that FPI has generated a modest net income overall, but that the vast majority of those earnings are from non-operational sources, primarily investment income, rather than factory operations.

He explained that operational income remains just slightly positive, with only a few business groups currently operating in the black. The year-to-date sales volume is trailing slightly behind the FY25 plan, largely due to disruptions from the continuing resolution impacting federal agency procurement early in the fiscal year.

Cost of Sales and G&A Performance: Mr. Porras reported that the cost of sales is currently averaging around 86–87%, which is slightly above FPI's internal benchmark of 84%. This means that a large portion of revenue is being spent on direct production costs, leaving a limited margin to absorb other expenses or generate profit.

FPI's G&A is tracking close to planned levels. Historically, G&A has averaged around 12% of revenue. Mr. Porras shared a 17-year trend showing that FPI's G&A percentage has increased gradually as total revenue has declined, from 8% of sales in years where revenue exceeded $800 million to about 14% in more recent years with revenue closer to $400 million.

He also presented G&A benchmarks by industry: office furniture industry average: 10–25%; clothing and textiles: 15–30%; and overall manufacturing sector: 5–15%. FPI's G&A by business group generally falls within these industry standards, and the agency has set a short-term internal G&A ceiling at 12%, with a goal of reducing that to 10% over the next two to three years.

Chairman Spears advised that given the currently economy, FPI should push towards the 10% G&A target now, not later, which is more aligned with where private industry is today. Mr. Lofthus added that FPI needs to manage two fronts simultaneously: G&A and the chronic loss factories since they are such a heavy burden to the rest of FPI.

Mr. Elliott asked if there was any concern that tariffs would increase the cost of sales. Mr. Mitchell responded that FPI does not anticipate significant impact from tariffs. While there were initial concerns, particularly in clothing and textiles, current reports from vendors and internal teams indicate that most materials are domestically sourced or already adjusted for price shifts. Vendors in areas like office furniture have either moved production back to the United States or have stable cost structures in place. Fleet and electronics may see some marginal exposure, but leadership is actively monitoring those areas and does not expect meaningful disruptions in the short term. The team will continue periodic checks as market conditions evolve.

Investment Performance: FPI's investment portfolio continues to perform well due to favorable interest rates, contributing significantly to net income. Investment returns are currently outperforming projections by about 50%. However, Mr. Porras emphasized that this level of return is temporary and not a reliable long-term solution for operational shortfalls.

Accounts Payable & Process Improvements: Mr. Porras provided an update on a previous issue involving pass-through invoices, which had caused delays in payment processing. He reported that a corrective action plan has been successfully implemented. The number of outstanding invoices in this category has dropped by over 80%, and FPI is now averaging roughly 350 invoices processed per day. This progress reflects improved internal workflows and increased oversight.

Earnings by Business Group: The only business groups currently generating net profits are Recycling and Office Furniture. All other business groups are operating at a loss when factoring in G&A. Corrective action plans have been launched for the underperforming groups, with a focus on improving cost controls, pricing accuracy, and operational efficiency.

Mr. Elliott asked how the corrective plans are being measured and what is the accountability mechanism. Mr. Porras responded that the plans are designed to drive positive operational income through a two-pronged focus: reducing direct costs and staying within G&A thresholds. Performance is being tracked monthly, and business managers are being held accountable through financial reviews and forecast adjustments.

III. Operating Plan Forecast

Mr. Mitchell presented an updated forecast for the remainder of the fiscal year. He reported high confidence in achieving modest operational gains by year-end, with better-than-expected performance from some divisions.

Mr. Mitchell shared that a number of adjustments have already been implemented across underperforming areas to improve efficiency, reduce losses, and reallocate resources more effectively. These adjustments are expected to stabilize certain business groups and bring others closer to breakeven in the next fiscal year.

IV. Business Group Spotlight – Fleet

Mr. Curiel presented an overview of the fleet division. The group operates across multiple facilities and supports a range of federal agencies with vehicle upfit and remanufacturing services.

The upfit division, which customizes vehicles to agency specifications, is experiencing strong demand and is poised for further growth. A large multi-year order is expected to significantly increase production needs across all five facilities.

The remanufacturing division supports vehicle and container refurbishment for military and other federal clients. New agreements have been signed, and additional opportunities are under development, including potential housing solutions for government agencies.

Mr. Curiel highlighted that recent improvements in throughput and activity rates have positioned the fleet group to return to profitability by year-end.

V. Upcoming Board Meetings

Ms. Cantwell shared updates to the Board meeting calendar. The next meeting is scheduled for July 24, 2025, and will be held in person in Washington, D.C.

She proposed canceling the originally scheduled August meeting and instead targeting a follow-up meeting for mid-to-late September. Chairman Spears supported this change and requested proposed dates be shared with the Board for consideration.

Future meetings may include site visits to FPI facilities, depending on Board interest and travel cost considerations.

VI. Action Items/Legal Updates

Mr. Thaler provided a brief legal update. He noted the legal team continues to monitor Executive Orders and other federal guidance to ensure compliance across all areas of FPI's operations. There were no new legislative developments to report at this time.

The Board approved draft meeting minutes from the previous meeting.

The meeting adjourned, and the Board participated in an Executive Session to discuss confidential matters.

/s/

For: Assistant Director/Chief Executive Officer