A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on June 15, 2022, via teleconference.

IN ATTENDANCE:

David Spears, Chairman
Lee Lofthus, Member
Dee Reardon, Member
Audrey Roberts, Member

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Catricia Howard, Acting 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
Edward Porras, Chief Financial Officer, FPI
Stephanie Gatz, Deputy Chief Financial Officer, FPI
Valery Logan, Executive Assistant, FPI

I. Chief Executive Officer Update

Mr. O'Connor provided the Board with an update. Inflation and supply chain shortages continue to affect all business groups, especially our fleet and print operations. We are experiencing labor shortages at camps and some lows. We are running at approximately 85% in inmate employment; however, much of that is at camps and lows where inmates have been moved to residential reentry centers (RRCs).

Mr. O'Connor provided an update on FPI's efforts to address its financial challenges. FPI has continued to control hiring and is currently staffed at 731, which is a gain of only two since the end of fiscal year (FY) 2021. Efforts are under way in all business groups to root out savings. Examples include stock transfers between factories, implementing second shifts to reduce overtime, purchase versus rent decisions on Conex boxes and trailers, competing office supplies, and competing office furniture installations. The same period sales to the Federal Bureau of Prisons (BOP) are down 49% year over year. The Clothing and Textiles Group (CTG) has approximately $20 million in finished goods awaiting final acceptance. The Office Furniture Group (OFG) has approximately $6 million in goods where delivery has been delayed due to remote work by customers limiting their ability to accept shipments.

Mr. O'Connor provided an update on his factory visits since the last Board meeting, which include Forrest City, Aliceville, Yazoo City, and Talladega. In addition, he attended the OFG conference in Lexington, KY, attended a smart factory opening in Wichita of a potential customer, and provided training at Principles of Leadership II in Denver, CO.

Mr. O'Connor provided an update on accomplishments. The contract for market research related to FPI's new authorities under the First Step Act of 2018 was awarded to Deloitte and kicked off on June 1, 2022. FPI executed a sales representation agreement with ADS. The Business Development Group (BDG) and Fleet Business Group (FBG) attended and held customer meetings at a special operators conference in Tampa from May 16-19, 2022. Fleet had a successful meeting with Customs and Border Protection on electric vehicles. The first three electric vehicles (Ford Lightnings) were delivered Friday, June 10, 2022. Another 19 electric vehicles are at the dealer getting prepped. BDG will have a booth at the upcoming Select USA conference at National Harbor, June 26-29, 2022.

Ms. Roberts asked if FPI has electric vehicles and if FPI has to install hookups to recharge them. Mr. O'Connor responded that FPI has has been receiving a lot of inquiries about building charging stations as a subcontractor as well as converting school busses to have electric powers.

Mr. Lofthus asked if the contract with Deloitte is being paid with FPI money. Mr. O'Connor responded in the affirmative.

Mr. Lofthus commented that, at least in the near term, new leases will be a fraction of what they currently are, and OFG may need to take a different approach due to reduced office space in the next five to ten years. Mr. O'Connor responded that this issue was part of the discussions at OFG's recent conference.

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

KPI 1.0, Mission: FPI has been running at 85% due to inmates being sent to RRCs.

KPI 2.0, Financial Perspective: While FPI's FY22 year-to-date (YTD) sales and gross margin are ahead of our FY22 YTD targets, on net income we are showing a loss of $9.6 million, which is higher than anticipated.

KPI 3.0, Customer Perspective: FPI's on-time delivery is still below our FY22 target. We have made a slight reduction in backlog of approximately $7 million since the last Board meeting.

KPI 4.0, Internal Perspective: One of the positive things about having a smaller workforce is that our defect rate has been reduced, and we are significantly beating our target rate. Inventory turns are slightly up but still below our target. We have only lost 12,000 hours versus 21,000 at this time last year. However, the national shutdown is not included in this statistic.

KPI 5.0, Learning and Growth Perspective: Staff vacancies are 90 versus a target of 43 due to limiting hiring to control costs. Time to fill is at 33 days. Our recordable injury rate continues to be very low, and it is almost ten times lower than the national average.

Mr. Lofthus asked with inflation the way it is, and with raw material prices increasing, what is FPI doing with the pricing of its products? Mr. O'Connor responded that on new sales, FPI is adjusting to the new reality of raw material prices. We are also incorporating what we anticipate inflation to be. When we worked on this fiscal year's budget, we did add a few percentage points, but we did not anticipate how much inflation would increase. Our problem is with the contracts we already have. Most of the DLA contracts allow an increase of 5% over the life of the contract.

Mr. Spears asked what percentage of FPI's work is new business versus current contracts. Mr. O'Connor responded that it varies by business group; however, it should be approximately in the 50/50 range. Our biggest double-edge sword is that our competition has to do the same so we may lose bids because we are no longer competitive. Mr. Burke added that inflation is also hurting us in other areas, such as the cost of paid moves for staff. It is affecting everything.

II. Chief Financial Officer's Report

The FPI Year to Date Sales by BG:

- FPI sales were 278.9M YTD which is below plan by 18%. This is due to lower than expected sales by Fleet and Clothing and Textiles groups. There are many factors still affecting our sales, some factories are still affected by COVID restrictions, we continue facing material shortages due to shipment delay from vendors, and supply chain issues in the acquisition of some materials.
- Overall the actual YTD sales of 278.9M were well above the FY 21 sales of 268M.
- The forecast for June to September sales is 157.5M. YTD sales are forecasted around 436M. The original plan was 533.7M
- Sales continue to increase as we coming out of the pandemic status, and the different locations start to resume normal operations and work to eliminate customer backlog (the delinquencies).
- We are optimistic about the future even throughout these economic challenges we face.

Year to Date earnings by Category:

- Group Earnings were below plan by 54.6% at 16.6M.
- General & Administrative (G&A) expenses were below plan at 34M.
- Other income is below plan by 18% at 6.8M, which is related to the fee arrangements established for the year (4.4%) our actuals are about 2.4%
- Investment income is in line with plan however, is below from FY21 results and will continue to be low given to low interest rates.
- We have a total Net loss of 9.6M, This loss is higher than our planned loss of $4M. This increase in loss is due to COVID restriction through 2nd Qtr of the fiscal, and several vendors not able to provide materials on time due COVID19 limitations which resulted in delays in production.

Year to Date earnings before G&A by BG:

- The earnings through May before G&A expenses were 20.2M. This represent a lower than planned (35.6) earnings due to lower sales results.
- The FBG, RBG, and C&T made 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 that were planned. There are three groups with losses prior to G&A: AGB (expected), OFG due to higher than expected selling expense over by 2.6M.

Year to Date Liquid Assets:

- Our Cash dropped from $238 Million at the end of FY21 to $190 Million as of May, a decrease of $50 million. The decrease in cash can be primarily attributable to the following:
  - $43 million decrease in Deferred Revenue (Advance Payable). The deferred revenue is attributable to customer advance payables on hand primarily for the retrofitting of vehicles for the Department of Homeland Security.
  - $9 million Net Loss (YTD)
  - Disbursements are on trend to continue exceeding receipts
- We are monitoring our expenses and the way we disburse our funds to ensure we managed cash based on our risk tolerance.
- Inventory continues to trend downward and has decreased by 10M monthly for the past three months. C&T has inventory well over the plan, specifically Yazoo city has 25M in outer tactical vests (OTV) pending testing and approval for shipment, OFG, and Fleet have inventory nearly double the planned level but are supported with the customer backlog of orders. Backlog has remained fairly stable from the end of FY21 (525,673) and the balance at May (501M). However in that same time from Delinquencies jumped from (160.8 Mill) at the end of FY21 to $240.6 at the end of May 2022, an increase of $80 Million.
- AR has hit a high of 52.5M, this is the result of a system issue preventing automated collections of 35M. These issues are being resolved and collections should recover in the upcoming short term.

Mr. Spears asked what is being projected for the revised plan. Mr. Porras responded that this year we have to reverse the amount we recognized last year. We do not know if that will be positive or negative, which will have an affect on our net income. Ms. Gatz explained how revenue recognition is conducted.

Mrs. Reardon provided a comment on electric vehicles. She stated that the costs to build charging stations to build a fleet of electric vehicles is much more expensive than the fleet of electric vehicles. The infrastructure will have to be built beforehand. She advised to keep infrastructure issues in mind.

III. Action Items/Legal Updates

The Board unanimously approved the draft meeting minutes for the April 20, 2022 Board meeting.

The next two meetings are scheduled for August 17, 2022, and October 19, 2022.

There were no legislative updates.

The Board was given a copy of FPI's FY21 Market Share Report.

The meeting adjourned.

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Patrick T. O'Connor, Chief Executive Officer