

FPI BOARD OF DIRECTORS MEETING
August 29, 2024

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on August 29, 2024, via teleconference.

IN ATTENDANCE:

David Spears, Chairman
Donald R. Elliott, Vice Chairman
Dee Reardon, Member

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

William Lothrop, Deputy Director, Federal Bureau of Prisons
Lee Lofthus, Interim Assistant Director/Chief Executive Officer, FPI
Oleta Vassilopoulos, Acting Senior Deputy Assistant Director, FPI
Sean Marler, Deputy Assistant Director, FPI
Marianne Cantwell, General Counsel, FPI
Edward Porras, Chief Financial Officer, FPI
Kim Armfield, General Manager, Recycling Business Group, FPI
Jim Mitchell, General Manager, Office Furniture Business Group, FPI
Tim Seaman, Quality Assurance Manager, Quality Continuous Improvement Branch, FPI
Valery Logan, Executive Assistant, FPI
Shaquana Faison, Administrative Assistant, FPI

Chairman Spears opened the meeting.

Deputy Director Lothrop discussed budgeting issues within the Federal Bureau of Prisons (Bureau) and the impact on FPI.

I. Interim Assistant Director/Chief Executive Officer's Report

Mr. Lofthus provided an overview of what he is focusing on within FPI. He mentioned profitability, fixing the prices on business items (pricing is currently at a loss), clean audit opinions, and restoring better communication. He wants the Board to see the good things that FPI is accomplishing, and he invited a few of the General Managers and Branch Chiefs to the meeting to present what is going on within their group. Mr. Lofthus gave an update from the last meeting that our business operations are losing money, about \$8 million as of the end of July, and we are covering that with our interest income. Mr. Lofthus is taking a hard look at how to turn things around. Federal budgets are going to be tight due to it being an election year, so we will have to keep that in mind as we move forward. He is concerned with the quality of products and the timeliness of deliveries to earn business back.

II. Financial Update

Mr. Porras provided an update on FPI's financials. For fiscal year (FY) 2024 through the end of July, FPI had a net income of \$22 million. Most of this income comes from our investments. FPI sales are \$335 million. Our net revenue from other income, which includes office space reimbursement and fees charged for other services FPI provides to customers, is \$16 million. Our earnings before we applied general and administrative expenses (G&A) are \$40 million. Once G&A is applied, only the Office Furniture Group (OFG) and the Recycling Business Group (RBG) had net earnings (\$17 million and \$5 million respectively).

Thus far in FY24, FPI has employed nearly 18,000 full time incarcerated workers and 800 part time incarcerated workers for a total of 18,600 adults in custody (AICs). FPI currently employs 9,900 full time and 400 part time AICs, for a total of 10,300.

Our net industrial income (\$70 million) is the result of our sales to date (\$335 million) plus our investment income (\$15 million) and our other income (\$16 million) less our cost of sales (\$261 million) and the under applied overhead (\$31 million). Our net income (\$22 million) is the result of net industrial income (\$70 million) less our G&A (\$48 million).

During FY24 budget planning, FPI had planned selling expenses of \$10.6 million through July based on historical data. The major driver in the decrease in selling expenses is OFG, which had a reduction of almost \$6.8 million in selling expenses due to the decrease in freight costs. During FY24 OFG has also seen substantial savings because of using a third-party logistics company for transportation services.

Backlog is the number of sales FPI has in the pipeline to deliver to customers. Through July, FPI had a backlog of \$261 million.

Total sales through July were \$335 million. This is lower than plan by \$32 million and lower than FY23 by \$11 million.

Group earnings before G&A are lower than plan by \$2 million. G&A is lower than plan by \$6 million. Other income is higher than plan by \$2 million. Investment income is higher than plan by \$6 million. Net income is higher than plan by \$11 million.

RBG has a net gain of \$5 million after G&A. OFG has a net gain of \$17 million after G&A. The remaining five business groups are losing money.

III. Business Group and Support Branch Presentations

Mr. Mitchell, the General Manager of the Office Furniture Group (OFG), stated that his group is exceeding forecasted sales. They are operating out of six locations currently and will be adding a seventh (FCI Beckley) in October. Mr. Mitchell discussed OFG's profit margins, overhead at the factories, and G&A. He also discussed pricing - everything is sold with destination pricing, which makes it difficult because whether you sell a chair that comes to Washington, DC or you sell a chair that goes to Oregon, we're selling it with shipping costs built into the chair price. When OFG investigated this, they determine that OFG was charging much less for shipping than it was costing us. OFG repriced everything and did per pound pricing.

OFG's operation at FCI El Reno is having a rough year, but a contract was recently signed to do pallet packing for DLA, which will help. The Product Support Center is the entity that is involved in nearly everything for OFG. They do all the testing, and he plans to really invest in this portion of the group. He plans to share a model with other business groups to see if it can be beneficial to them as well. Mr. Mitchell is focusing on relationships - he meets with costumers, talks to them, puts faces to names, and educates them on our products. He takes time to show them the ease of procurement/ordering with us.

Mr. Seaman, the Chief of the Quality Continuous Improvement Branch (QCIB), discussed the work QCIB has been doing on improving quality and metrics, as well as defects and on time delivery. As of July 24, FPI had 22% lower costs associated with defects as compared to FY23. They are doing well with lowering the defect rates.

Ms. Armfield, General Manager of the Recycling Business Group (RBG), was recognized by the Director's Office for the success of the operations at FCI Allenwood, along with RBG's factory at FCI Schuylkill. The factories provide job training, First Step Act credit hours, and work opportunities to AICs prior to release to increase their chance of successful reentry into the community. Ms. Armfield also stated RBG continues to meet its fiscal goals and is on track to achieve or exceed the numbers in its FY24 sales plan.

RBG is actively working to expand their customer base by increasing its presence at global recycling conventions and trade shows. In addition to enhancing industry visibility, RBG is dedicated to developing its data destruction segment by incorporating specialized high-security areas and a state-of-the-art data drive shredder. These initiatives aim to attract new customers and enhance workflow from existing clients including the Bureau. RBG is currently piloting several promising value streams that will be reflected in FY25, including a new consignment platform designed to significantly reduce the \$2.9 million RBG paid in consignment fees in FY24. Additionally, RBG is piloting testing software at its Allenwood location, which is expected to lead to notable increases in reuse throughput and production. FY25 is projected to build upon the exceptional performance of previous years, as all technology sectors and key indicators indicate continued growth. RBG will review all fiscal components in FY25 and prioritize addressing any identified inefficiencies to ensure continued profitability.

IV. Action Items/Legal Updates

The Board unanimously approved the draft meeting minutes from the April 2024 Board meeting. The Board discussed potential dates for the next Board meeting.

Ms. Cantwell discussed two Board resolutions and one proposed pilot project. The first Board resolution is for the replacement of Central Office's water source heat pumps. The Board unanimously approved the resolution. The second Board resolution is for the purchase of a laser cutting machine at FCI Milan for the Office Furniture Group. The Board unanimously approved the resolution.

The proposed pilot project is for filter manufacturing. In 2012, Congress gave FPI authority to manufacture or assemble products that would otherwise be produced outside of the United States. The Board unanimously approved the pilot project.

Ms. Cantwell provided a legal/legislative update. Ms. Cantwell also discussed FPI's 90th Anniversary bop.gov article promoting FPI's impact and legacy of strengthening communities.

The meeting adjourned.

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Lee Lofthus, Interim Assistant Director/CEO