FPI BOARD OF DIRECTORS MEETING
August 19, 2021

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on August 19, 2021, via teleconference.

IN ATTENDANCE:

David Spears, Chairman
Lee Lofthus, Member
Audrey Roberts, Member
Dee Reardon, 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
Greg Burke, Senior Deputy Assistant Director, FPI
Sean Marler, Deputy Assistant Director, FPI
Marianne Cantwell, General Counsel, FPI
Stephanie Gatz, Acting Controller, FPI
Valery Logan, Executive Assistant, FPI
Carlos Davis, Chief, Information Systems Management, FPI (attended during discussion of SAP S4/HANA)
Dennis Merrion, General Manager, FPI (attended during Office Furniture Group presentation)
Jennifer Telfare, Chief Project Manager, FPI (attended during Office Furniture Group presentation)

Chairman Spears opened up the meeting.

Director Carvajal provided a hiring update for the Federal Bureau of Prisons. To date, over 2,300 staff have been hired. There are approximately 600 vacancies, which is very low for the agency. Officers are currently staffed at about 95%. Clinical medical positions are harder to fill. There are currently approximately 185 clinical medical positions vacant. Staffing is always an issue in the media and there is a misconception that the Bureau cannot hire; however, this has been proven false through the hiring initiative. The Bureau is working on ways to fund the positions.

To date, over 211,000 vaccine doses have been administered to staff and inmates. There are approximately 4,000 inmates who have currently not been offered the vaccine. That number fluctuates due to incoming inmates. The vaccination rate among inmates is approximately 64%, which equates to about 79,000 inmates. The vaccination rate among staff is around 50-51%, which equates to about 20,000 staff. Staff are being encouraged to take the vaccine. We are still waiting on further guidance from the U.S. Department of Justice on the vaccine mandate.

Currently, there are 387 inmates and 318 staff with COVID-19. There have been two deaths in the past several months with a total of 242 total COVID-related deaths.

Over 30,000 inmates have been released to home confinement.

I. Chief Executive Officer Update

The impact of COVID is still the dominant issue facing FPI. Inmate staffing levels have plateaued – the May through July average was 82.3%. During the Delta variant, some new factories have come online, which has offset the factory closings and low staffing caused by the spread of the Delta variant. About 40% of factories are working below 80% staffing.

Expansions are on track. The new operation at FCI Aliceville is doing very well. They have 106 inmates and are producing sleeping bags and tents. The customer is pleased and is adding to the lineup which will increase inmate workers to approximately 250 by the end of the year. FPI's operation at FCI Marianna has expanded their electronics recycling from a collection center to a recycling hub employing approximately 92 inmates. FCI Williamsburg has approximately 75 inmate workers producing Molle 4000 rucksacks. The first articles are at the Defense Logistics Agency (DLA) now to certify FPI as a place of performance. The production of flame retardant coveralls and tarps are moving from USP Atlanta to FCI Williamsburg, which will double in size within the next month.

Activations at FCI Bennettsville and FCC Hazelton are on schedule. The staff have been selected for Bennettsville and the operation will become active within the next thirty days. The machine tools, plumbing, and wiring for FCC Hazelton are going in now.

There are two factories at USP Atlanta that are closing - Cut and Sew and Mattresses. Cut and Sew has already been shut down with part of the work going to FCI Williamsburg. The other work will be going to FCC Yazoo City. The mattress side is running with a minimum crew of inmates until we can get a new facility to take it over. There has been an excellent working relationship with the Warden and Regional Director to make this happen.

Mr. O'Connor mentioned that he has recommenced traveling since the COVID-19 related travel restrictions have been loosened. He visited the fleet operation at FCC Victorville. He also visited FPI's recycling operation at USP Atwater and call center at FCI Dublin. He took the opportunity to visit the California Prison Industry Authority (CALPIA) operation in Solano, which is a new, relatively high tech optical factory, to see how they balance high level automation with inmate employment.

Mr. O'Connor recently attended a four day training by the U.S. Office of Personnel Management (OPM) called "Extraordinary Leadership."

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

KPI 1.0, Mission: The number of full-time inmate workers is lower than FPI's fiscal year (FY) 2021 target, but we have made progress with an increase of almost 400 inmates since the beginning of the year. Total inmates employed is higher than our goal. The percentage of inmates within three years of release is lower than the goal due to many inmates being released to residential reentry centers (RRCs) and home confinement.

KPI 2.0, Financial Perspective: We are ahead of the midyear forecast in terms of sales. While slightly behind last year, last year we ended with bad months. This year, we appear to be on the upswing. Net income is lower than the midyear forecast for several reasons. We had to take a $1.8 million charge in June due to a work in process error. We had some product that we contracted out, shipped the material to be cut and sewn, but when it arrived to our factory, they did not enter cost of material. That was a clerical area and staff have since been re-trained. We also had a $900,000 accrual in anticipation of settlement of a recycling case. We would be ahead of the midyear forecast if not for these two issues. Gross margin is slightly better than anticipated by the midyear forecast and FY21 Operating Plan.

KPI 3.0, Customer Perspective: On-time delivery rates are not where we want them to be. Like most of the country, we are having issues with supply chains and getting things out to customers. However, we have been able to reduce the backlog by almost $107 million since the first of the year.

KPI 4.0, Internal Perspective: Our defect rate is doing quite well. We are beating our target. We are under 15,000 defects per million. Inventory turns remain low. We have increased a tenth of a point, but until we get deliveries out, that will not change much. We are ahead of schedule for lost hours. We are under half of the lost hours we were at last year.

KPI 5.0, Learning and Growth Perspective: With staffing, we are behind on filling vacancies. Part of that is intentional because we do not have the sales to support it. We have been hiring in key areas, such as FMB. Our time to fill versus the Office of Management and Budget's 80-day baseline is very good at 31 days. All of our staff have completed at least one training course in FY21. On average staff have taken two to three training courses. Our recordable injury rate is at 0.69, which makes us one of the safest manufacturing facilities you can work at in the country.

Chairman Spears asked how personnel costs are affected when factories are shut down and whether staff go on unpaid leave? Mr. O'Connor responded that we still have personnel costs when factories are locked down. When shut down, staff catch up on clerical work and training. Luckily right now, we don't have a lot of factories that are locked down for a long time.

II. Office Furniture Group Presentation

Mr. Merrion, General Manager for FPI's Office Furniture Group (OFG) announced that he is retiring on September 30, 2021. Ms. Telfare has been selected as the new General Manager. She has over 33 years of experience working in the furniture industry.

OFG has done well over this past year considering the hurdles of COVID. Currently we are at $90 million in sales. We have $144 million in backlog and that continues to grow.

In regards to what OFG will do if federal employees work remotely going forward, we have reached out to our sales team and several house accounts, and we are not seeing that trend.

Mr. Lofthus and Chairman Spears congratulated Mr. Merrion on his retirement and excellent career. They also welcomed Ms. Telfare.

III. Chief Financial Officer's Report

Ms. Gatz provided an update on FPI's financials. All business groups except Agribusiness (ABG) exceeded their FY20 July sales. All groups except ABG and the Clothing & Textiles Group (CTG) met or exceeded their forecasted sales. Overall, July sales are more than double the FY20 July results and also meet what was done in July of 2019, pre-pandemic.

The earnings for July, at $5.1 million, were higher than forecasted. July earnings also exceed the same period from FY20 and are very close to the FY19 July results. The Fleet Business Group (FBG) exceeded the earnings predicted under both the forecast and the Operating Plan as it continues to make progress on the backlog of vehicles.

Most groups are meeting or exceeding their year-to-date (YTD) forecasted sales. Earnings before general and administrative expenses (G&A) are $32.3 million with most groups meeting the forecasts. CTG has fallen short of earnings forecasts due to start-up losses at FCI Aliceville and FCI Williamsburg of $1.8 million as well as writing off some inventory. The Electronics Group's (EBG) earnings were lower than planned.

Cash levels continue to recover from their January 2021 low. We may see a small dip early in FY22 as we bring in inventory and disburse payments in advance of the S/4 HANA cutover. Inventory is trending down as usual for this part of the fiscal year, however, we still have nearly double the levels from July 2019 for the FBG, OFG, and CTG. This is expected as the backlog is also nearly double for those group. The accounts receivable balance has not changed much in the past few months.

IV. SAP HANA Update

We completed Mock 2 of the Stabilization Phase by Syniti. This was the first time that a full load was performed on all ECC production data. This allowed us to identify and resolve defects. More time was spent on Mock 2 than planned, which should lead to a smoother Mock 3 with fewer errors going forward and more reliable data for data validation and dependent data loads.

The extra time spent on Mock 2 resulted in a delayed start of Mock 3 (started 7/12 instead of 6/28). We still expect to meet the overall schedule. Currently, the November Go-Live is not at risk.

So far Mock 3 is going smoothly with a very high load accuracy rate (>99.9%). Materials were loaded with only two errors. The priority is closing out defects before beginning Mock 4. Mock 3 is expected to be completed on 9/3.

Mock 4 is scheduled for 9/6 - 10/1, and dress rehearsal is scheduled for 10/3 - 10/17. The cutover is scheduled to start 10/31. There will be downtime from 11/5 to 11/12 with Go Live scheduled for 11/12.

Project costs are still within budget. All the time and energy put into Phase 2 paid off in Phase 3.

V. Action Items/Legal Updates

The next meeting is scheduled for October 20, 2021. The following meeting is scheduled for December 15, 2021.

The Board unanimously approved the meeting minutes draft from June 2021.

The meeting adjourned.

/s/

Patrick T. O'Connor, Chief Executive Officer