FPI BOARD OF DIRECTORS MEETING
December 18, 2019

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held via teleconference, on Wednesday, December 18, 2019.

IN ATTENDANCE BY PHONE:

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

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Kathleen Hawk Sawyer, Director, Bureau of Prisons; Commissioner, FPI
Thomas Kane, Deputy Director, Bureau of Prisons
Patrick T. O'Connor, Chief Executive Officer, FPI
Dennis Merrion, Acting Senior Deputy Assistant Director, FPI
Marianne Cantwell, General Counsel, FPI
Stephanie Santucci, Chief Financial Officer, FPI
Kia Smith, Administrative Officer, FPI
Eric Rasmussen, Lead Auditor, KPMG
Renee Rawlins, Senior Auditor, KPMG

Chairman Spears called the meeting to order and thanked everyone for attending. Director Hawk Sawyer touched on the impact that lockdowns have had on FPI's production. She has made it clear to the Assistant Directors that the Bureau of Prisons has to address this issue. She stated that she is in favor of seperate FPI housing units. Where these are in place, inmates working in FPI factories are able to continue production in the factories during lockdowns.

KPMG auditors Mr. Rasmussen and Ms. Rawlins presented the fiscal year (FY) 2019 FPI financial statements audit exit conference. Mr. Rasmussen reviewed the year-long efforts for the FY19 audit, including: (1) An audit that spanned 10 months and included approximately eight KPMG professionals; (2) More than 17 formal and informal status meetings conducted with management; (3) Review of approximately 113 financial documents and 89 information technology documents provided by FPI; (4) Nine field site visits; (5) Written audit findings and recommendations; and (6) Internal controls for two financial-related information technology systems and applications were evaluated.

Mr. Rasmussen stated that KPMG issued an unmodified auditors' opinion on the financial statements, prepared in accordance with U.S. generally accepted accounting principles. No material weaknesses or significant deficiencies were reported. Nor did the audit find any instances of noncompliances with laws, regulations, or contracts that were required to be reported. Further, the audit found no instances in which FPI's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act.

Mr. Rasmussen noted that KPMG will continue to monitor or address: (1) The potential impact of fluctuating Treasury interest rates on the actuarial Federal Employees' Compensation Act (FECA) liability; (2) Standard costs for accurate inventory pricing; (3) The outcome of probable commitments and contingencies; (4) Revenue Recognition Standard (ASC 606); (5) Leasing Standard (ASC 842); and (6) FPI's implemention of SAP HANA.

Mr. Lofthus acknowledged that the FPI audit is linked to the DOJ audit. Therefore, on behalf of the DOJ, he wanted to personally thank KPMG auditors and FPI finanicial staff for their hard work.

I. Chief Financial Officer's Report

The FY20 Operating Plan predicts business group earnings before general and administrative expenses (G&A) of $77.6 million; 27% above FY19 actual results. The increase is primarily due to: contracts secured by the Clothing and Textiles Group (CTG); anticipated opportunities within the Electronics Business Group (EBG); the size of the Office Furniture Group's (OFG) backlog at the end of FY19; and the expansion in the Recycling Business Group's (RBG) operations.

Corporate G&A is expected to be $60.7 million in FY20, which is $9.8 million or 19% higher than FY19 corporate G&A. The increase is attributed to salary expenses, the investment to refresh the Cisco network, and staff training. The G&A staff plan consists of 230 positions in comparison to the current level of 185, a 24% increase over current levels and a 6% increase above the FY19 staffing plan. The increase is largely allocated to positions within the Procurement, Business Development, and Management Information Services Branches. The cost associated with refreshing the Cisco network and inmate computers is budgeted at $3.265 million. The investment in staff and inmate training is $3.1 million.

The Operating Plan predicts Other Income and Investment Income that is in line with FY19 actual results. Net income is expected to be $6.7 million higher than FY19 results. The sales plan anticipates a 5% profit margin in comparison to FY19 results of 4% profit margin after G&A and Corporate Income.

The Operating Plan predicts that FY20 sales will be 7.3% higher than FPI's sales in FY19. During FY20 we do not anticipate an increase in sales for the Agribusiness Group (ABG) or the Services Business Group (SBG). SBG's FY19 sales and earnings were strong due to completing the orders transferred from the now-closed Lompoc Sign Factory. The FY20 plan recognizes this reduction in sales as well as the cancellation of a large contract. We anticipate a 32% increase in sales for RBG, which has expanded operations on the east and west coasts. OFG's sales plan reflects an 11% increase, which is supported by the group's backlog. Although there appears to be a 22% decrease in the Fleet Business Group's (FBG) sales plan, $60 million in provider services will be recorded as Other Income in FY20 rather than as invoiced sales. EBG's sales plan shows an increase of 17%. CTG anticipates a 51% increase in sales. CTG has secured nine contracts that are expected to maintain sales at FY20 plan levels for the next five years, with an increase of 1% per year.

Moving to November's actual results, business group earnings before G&A were 4.3% below FY19's actual results, and 11.1% below the Operating Plan. Net income is also currently

11.1% below plan. The lower earnings are largely due to CTG's level of invoiced sales. The group experienced a slower-than-anticipated startup of operations. Corporate G&A was 8% lower than the plan due to network refresh expenditures that were budgeted but not incurred during the first two months. Other Income and Investment Income categories were both within plan.

November's year-to-date (YTD) sales were $73.3 million, which is 12% below FY19's results and 8% below plan. ABG was 20% below plan; SBG was 8.5% above plan; RBG was slightly below plan; OFG was 16% above plan; FBG was 33% below plan; EBG was 16% below plan; and CTG was 29% below plan. Other than CTG and ABG, the business groups met or exceeded their planned earnings.

Cash levels increased $4 million from the previous month, inventory levels increased $16 million, and accounts receivables increased $5 million. The increase in inventory is directly related to the purchase of vehicles for FBG's upfit operations.

II. Chief Executive Officer Update

Mr. O'Connor provided an overview of five key indicators: (1) Mission, (2) Financial Perspective, (3) Customer Perspective, (4) Internal Perspective, and (5) Learning Growth Perspective. He updated the Board on his YTD factory visits: Lexington, Three Rivers, Schuylkill and Fairton. The visit to Three Rivers was with a potential customer interested in opening a Prison Industry Enhancement Certification Program to make composite building materials. The Lexington visit included BOP Executive Staff meetings. Mr. O'Connor noted that FPI staff are working on finalizing responses to U.S. Government Accountability Office (GAO) information requests related to the audit required under the First Step Act. Current business development initiatives include a major EBG customer that is moving a kitting program from Nogales to Phoenix and possibly expanding to Tucson. In order to improve FPI's capabilities at competing for government business, FPI has 15 staff across the organization who are scheduled to attend a Shipley proposal writing class in January.

III. Action Items/Legal Updates

Ms. Cantwell discussed and confimed the date and location of the next Board Meeting. The Board unanimously approved the minutes from the October 31, 2019 Board meeting.

The meeting concluded and the Board adjourned into an Executive Session.

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Patrick T. O'Connor, Chief Executive Officer