

FPI BOARD OF DIRECTORS MEETING
February 20, 2020

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on February 20, 2020 at FCC Butner.

IN ATTENDANCE:

David Spears, Chairman
Donald R. Elliott, Vice Chairman
Lee Lofthus, Member
Audrey Roberts, Member
Dee Reardon, 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
Greg Burke, Senior Deputy Assistant Director, FPI
Marianne Cantwell, General Counsel, FPI
Stephanie Santucci, Chief Financial Officer, FPI
Thomas J. Scarantino, Complex Warden, FCC Butner
Barbara Sullivan, Warden, Butner Medium FCI I
David Leu, Warden, Butner Medium FCI II
LaTrice Heyward, Acting Warden, Butner Low
Paul Campbell, General Manager, Clothing & Textiles Group, FPI
Benjamin Hall, Operations Manager, Clothing & Textiles Group, FPI
Kia Smith, Administrative Officer, FPI

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 reiterated her comments from the last Board of Director's meeting that she has made it clear to the Assistant Directors that the Bureau of Prisons (BOP or Bureau) has to come up with a fix for this. She stated that there should be separate housing units for inmates who work for FPI, which would allow these inmates to continue working during lockdowns. Warden Scarantino and institution staff provided an overview of FCC Butner.

I. Chief Financial Officer's Report

The fiscal year (FY) 2020 operating plan projected net income of \$27.5 million; \$6.7 million or 32% higher than FY19 results. The second quarter forecast reduced predicted net income by \$2.5 million; 9% lower than the plan and 20.2% higher than the previous year.

The FY20 operating plan projected business group earnings before general and administrative expenses (G&A) of \$77.6 million, 27% above the previous year's results. The second quarter forecast reduced expected business group earnings before G&A by \$4.2 million, which is 5.4% below the original FY20 plan and 20% above FY19 results. The reduced earnings is directly

related to delays in the startup of several product lines within the Clothing and Textiles Group (CTG). The second quarter forecast anticipates that Corporate G&A will be 2% lower than predicted in the FY20 operating plan. Results in the Other Income and Investment Income categories are expected to be in line with FY19 actual results.

The FY20 operating plan predicted \$570.5 million in sales; \$39 million or 7.3% higher than FY19's results. The second quarter forecast reduced expected sales to \$537.8 million; \$6.3 million or 1.2% above the previous year's results. Other than CTG and the Fleet Business Group (FBG), the second quarter sales forecasts for the other business groups remain in line with their FY20 operating plans.

At the end of January, net income was \$7.6 million; which is 24% lower than the \$10 million predicted in the operating plan, but \$2.2 million or 40.7% higher than the previous year's results. Business group earnings before G&A were 17.8% below the plan, comparable to the previous year, and 6% below the second quarter forecast. As mentioned previously, this is directly related to the delayed start-up of new product lines in CTG. Corporate G&A was \$16.3 million in comparison to the plan of \$18.3 million and \$400 thousand below the previous year's results. Other Income and Investment Income categories are in line with the operating plan.

Year-to-date (YTD) invoiced sales through January were \$12.4 million or 7.6% lower than the operating plan, 12% below the previous year's results, and slightly below the amount predicted in the second quarter forecast.

For the Agribusiness Group (ABG), invoiced shipments were \$2.2 million, which is in line with the operating plan and previous year's results. The Services Business Group (SBG) had invoiced sales of \$12.3 million, which is 4% below plan and 7% below the previous year's results. The Recycling Business Group's (RBG) invoiced sales were \$6.3 million, which was slightly below plan and 15% above FY19. The Office Furniture Group (OFG) had \$46.5 million in invoiced sales; 18% above plan and 30% higher than the previous year's results. The Electronics Business Group (EBG) had invoiced sales of \$12.2 million; 10% below the plan but 28.4% above FY19's results. CTG's invoiced sales were \$45.5 million; 22% below the plan and in line with FY19's results.

FBG's invoiced shipments were significantly lower than FY19's results. However, this is partially attributed to the reclassification of revenue sources. Sales revenue now consists of only manufactured orders. Sales from service orders are included in the Other Income category. Invoiced sales were 16.5% below plan and 44% below FY19's results.

The meeting was paused and the Board adjourned into an Executive Session.

II. Chief Executive Officer Update

Mr. O'Connor provided an overview of five Key Indicators: Mission; Financial Perspective; Customer Perspective; Internal Perspective; and Learning and Growth Perspective. He also updated the Board on his eight YTD factory visits (to Lexington, Three Rivers, Schuylkill, Fairton, La Tuna, Safford, Phoenix, and Victorville) and four other YTD institutional visits (to Carswell, Fort Worth, Grand Prairie, and the San Diego Regional Reentry Center. The visit to

Grand Prairie was for BOP Executive Staff meetings and the San Diego visit was for the American Correctional Association (ACA) winter conference.

Mr. O'Connor followed up on some key issues noting that FPI is finalizing responses to the U.S. Government Accountability Office (GAO) related to the GAO audit required under the First Step Act. In new business development, we have a major electronics firm's VP of Manufacturing touring Phoenix in late February. We have engaged Shipley Associates to assist in developing various upcoming proposals.

III. Action Items/Legal Updates

Ms. Cantwell discussed the Board schedule and reminded the Board that the next teleconference will be on April 22nd and the next face-to-face meeting is scheduled for June 17th. FPI will send the Board suggestions as to the location for the June meeting. The Board unanimously approved the minutes from the December 18, 2019 Board meeting.

Ms. Cantwell provided an overview of the FY19 Market Share report. She mentioned there is only one Federal Supply Classification (FSC) code, FSC 8420 (Men's Outerwear and Undershirts), that exceeds the 20 percent market share limitation set by the Board. However, sales in this category are below the production ceiling approved by the Board. There are two FSC codes, 7125 (Cabinets, Shelving and Lockers) and 7210 (Household Furnishings), that FPI will monitor because FPI exceeds 15 percent market share in those categories.

Ms. Cantwell also provided an overview of the FY19 Sales Report. She noted that FPI's largest customers are: the Department of Defense (48%); the Department of Homeland Security (25%); the Federal Bureau of Prisons (7.2%); the Department of Justice (3.2%); the Social Security Administration (2.1%); and the General Services Administration (1.4%).

The meeting concluded and the Board adjourned to a tour of FPI operations at FCC Butner.

/s/

Patrick O'Connor, Chief Executive Officer