

FPI BOARD OF DIRECTORS MEETING
April 22, 2020

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on April 22, 2020 via teleconference.

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:

Michael Carvajal, 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
Carlos Davis, Chief, Information Systems Management, FPI
Huba Papp, Project Manager, NTT DATA, Inc.
Kia Smith, Administrative Officer, FPI

Chairman Spears called the meeting to order and thanked everyone for attending. He acknowledged the hard work and dedication of the staff during these challenging times. He also thanked Mr. O'Connor for the face shields and masks that was shipped to the Board Members. Deputy Director Kane thanked everyone for their focus on responding to COVID-19. Director Carvajal also thanked FPI and provided a brief overview of the status of the agency during this pandemic.

I. 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. Mr. O'Connor also followed up on some key issues. He discussed damages to FCI Estill and FPI's factory there that were caused by a recent tornado. Mr. O'Connor provided the Board with an update on the audit of FPI that the U.S. Government Accountability Office (GAO) was required to conduct under the First Step Act. Due to COVID-19, a "reading of the recommendations" was held in lieu of the exit conference. There are no recommendations related to FPI's operations. The GAO expected to send FPI the final draft of the report for review by June 11, 2020.

Mr. O'Connor updated the Board on FPI's response to COVID-19. FPI's Central Office staff are on maximum telework schedules. Most UNICOR facilities closed on April 1, 2020, with limited exceptions for the production of personal protective equipment (PPE) needed for the Bureau's COVID-19 response and U.S. Department of Defense (DoD) mission critical items. FPI field

staff at closed factories were moved to correctional staff duties. Several FPI Central Office secondary law enforcement staff will be deployed to support the Bureau of Prisons.

Mr. Burke gave an update on new business development. A major electronics firm's VP of Manufacturing toured Phoenix on February 27th, and FPI staff toured the firm's operations. A United Kingdom-based producer of surgical gloves contacted FPI regarding the potential for FPI to conduct packaging and sorting operations. A North Carolina firm has been designated as the sole source provider of USA-made surgical towels for the Defense Logistics Agency (DLA), and FPI has been approved as the cut and sew manufacturer for the specialty fabric.

Mr. Davis and Mr. Papp gave a status update on the SAP/Hana Project. The project is on track with the re-baselined schedule. The team experienced some unexpected load issues but were still able to complete Mock 1 on the target date of April 15th. The first product test should begin on time on April 27th. Mr. Davis noted that they have been working closely with the Chief Financial Officer and other stakeholders on investigating deployment options, which include post and early deployment.

II. Chief Financial Officer's Report

Fiscal year (FY) 2020 year-to-date (YTD) invoiced sales through March were \$19 million lower than the operating plan, \$2 million above the previous year's results, and \$4 million above the amount predicted in the second quarter forecast.

For the Agribusiness Group (ABG), FY20 YTD invoiced shipments were \$3.2 million, which is in line with the operating plan and previous year's results. The Services Business Group (SBG) had invoiced sales of \$17.5 million, which is slightly below plan and the previous year's results. The Recycling Business Group's (RBG) invoiced sales were \$9.7 million, which was slightly below plan and 21% above FY19. The Office Furniture Group (OFG) had \$61.6 million in invoiced sales; 8% above plan and 19% higher than the previous year's results. The Electronics Business Group (EBG) had invoiced sales of \$15.9 million; 18% below the plan but and 5% below FY19's results. The Clothing and Textiles Group's (CTG) invoiced sales were \$73.5 million; 18% below the plan and 19% above the FY19's results. The Fleet Business Group's (FBG) invoiced shipments were \$49.4 million.

At the end of March, net income was \$8.5 million; which is 39% lower than the \$13.5 million predicted in the operating plan, and \$1.1 million or 12% lower than the previous year's results. Business group earnings before G&A were 34% below the plan, 4% below the previous year, and 11% below the second quarter forecast. Corporate G&A was \$24.7 million in comparison to the plan of \$28.7 million and in line with previous year's results. Other Income and Investment Income categories are in line with the operating plan.

The COVID-19 pandemic has forced FPI to temporarily close factories and redirect resources to meeting the needs of the Bureau of Prisons. The situation has significantly changed FPI's forecasts for the third quarter. The FY20 operating plan predicted \$570.5 million in sales for FY20; the third quarter forecast reduced expected sales to \$424.5 million. The FY20 operating plan projected business group earnings before general and administrative expenses (G&A) of \$77.6 million; the third quarter forecast reduced expected business group earnings to \$39.8 million, 49% below the operating plan. The FY20 operating plan projected a net income of \$27.5

million; the third quarter forecast reduced net income to an anticipated loss of \$4.4 million. The last time FPI experienced this level of negative earnings was in FY13. We are also anticipating that investment income will be 33% lower than predicted in the operating plan.

III. Action Items/Legal Updates

Ms. Cantwell discussed the Board schedule and reminded the Board that the next meetings will be held via teleconference in June and August. The next face-to-face meeting is scheduled for October; location to be determined. The Board unanimously approved the minutes from the February 20, 2020 Board meeting. Ms. Cantwell also updated the Board on recent media articles that mentioned FPI.

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

Patrick O'Connor, Chief Executive Officer