

FPI BOARD OF DIRECTORS MEETING
February 19, 2025

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on February 19, 2025.

IN ATTENDANCE:

David Spears, Chairman
Donald R. Elliott, Vice Chairman
Dee Reardon, Member
Jolene Lauria, Member
Monty Wilkinson, Member

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Seth Bogin, Chief of Staff, Federal Bureau of Prisons
Lee Lofthus, Interim Assistant Director/CEO, FPI
Oleta Vassilopoulos, Acting Senior Deputy Assistant Director, FPI
Marianne Cantwell, General Counsel, FPI
Edward Porras, Chief Financial Officer, FPI
Stephanie Gatz, Deputy Chief Financial Officer, FPI (by phone)
Jennifer Telfare, General Manager, Services Business Group, FPI
Sean Winchell, Deputy Chief Financial Officer, FPI (by phone)
Deloran Lyles, Program Manager, Business Development Group, FPI
Shaquana Faison, Administrative Assistant, FPI

Chairman Spears opened the meeting.

Mr. Spears thanked everyone for their participation and facilitated introductions of all attendees. He also gave kudos to Mr. Bogin and Ms. Vassilopoulos.

Mr. Bogin informed the Board that the Bureau of Prisons' (BOP or Bureau) Acting Director William Lothrop had announced his retirement as had several other BOP Executive Board members, so there will be a mass leadership change soon. He thanked and welcomed the new Board members.

Mr. Bogin shared his educational and professional background. He also discussed challenges that the Bureau is having with staffing, infrastructure, and contraband. The Bureau has 155,000 inmates and 35,400 employees. This is the best hiring year we have had in 10 years. Our funded positions are 93% filled and 86% of correctional officer positions are filled. We are partially affected by the hiring freeze (some positions are exempt). The Bureau has 120 FSA-approved programs. The Bureau is providing beds for U.S. Immigration and Customs Enforcement detainees to assist with the administration's immigration priorities.

Mr. Bogin mentioned concerns about the Bureau's budget. The current budget runs through March 14th. Spending has been curtailed Bureau wide. The budget after March 14th is uncertain

but it will affect BOP spending. BOP Associate Deputy Director Kathleen Toomey will go in front of the House next week to discuss the Bureau's needs.

I. Interim Assistant Director/CEO's Report

Mr. Lofthus provided the Board with updates. FPI has approximately 670 employees and over 60 factories. For fiscal year (FY) 2024 FPI had a net profit of \$14.8 million (all from investment income), with a business operation loss of \$7.4 million. Only two of FPI's seven business groups were profitable: the Office Furniture Group (OFG) and the Recycling Business Group (RBG). Only one third of FPI's factories earned a profit. We are still facing pricing challenges but are focused on turnaround efforts and cost optimization site visits to chronic loss factory locations. Mr. Lofthus reviewed FPI sales vs. cost by category from 2008-2024, including cost of sales, overhead, selling expenses, general and administrative expenses (G&A), and sales.

Mr. Elliott commended the team for identifying the problems and coming up with solutions. He asked how much of the plan has been completed. Mr. Lofthus mentioned that he's not sure if the team is even halfway through.

Mr. Elliott asked how we make sure the plans will continue to be implemented once Mr. Lofthus is no longer the Interim Assistant Director. Mr. Lofthus responded that we will address this topic further during the executive session.

Ms. Lauria asked about the pricing of products. Mr. Lofthus explained that we have tens of thousands of things to get right. Ms. Vassilopoulos stated that we recognize training is needed for those making decisions on contracts. This week we are having a lunch and learn with the Financial Management Branch to discuss topics including managing costs, overhead, and pricing issues.

Mr. Lofthus discussed FPI's culture and employee morale. FPI did not have great communication. The business groups did not think that they had the support of leadership. We have severe procurement problems that stem from poor communication so currently we hold regular meetings and recalls to improve communication at all levels.

II. Financial Update

Mr. Porras welcomed the new Board members and gave an overview of FPI's financials.

FY25	YTD (Oct - Jan)	
FPI CORP	Plan	Actual
Sales	\$146,095	\$144,209
COS	\$113,101	\$112,856
Net Sales	\$32,994	\$31,353
Under Applied OH	\$9,372	\$10,584
Selling Expenses	\$3,148	\$3,283
G&A	\$19,980	\$20,033
Total Expenses	\$32,500	\$33,900
Other Income	\$3,826	\$2,629
Operational Income	\$4,320	\$82
Corp Other Income*	\$1,423	\$1,547
Investment Income	\$3,829	\$6,196
Total Corp Income	\$5,252	\$7,743
Net Income (Loss)	\$9,572	\$7,825

FPI earned \$8 million in net income from October to January; only 1% (\$82,000) of those earnings are at the operating level, well below our plan of \$4 million.

Addressing 3 key elements:

1. Sales - Our sales are below plan by \$2 million. For FY25, our sales are affected by the federal government operating under continuing resolution until March 14 and the changes in federal agencies spending.
2. Cost of Sales (COS) - Our COS averages 86%, which is higher compared to plan (84%). We are addressing the high COS by sending a cost optimization team to factories with higher losses to review their operations and provide leadership with recommendations to reduce costs.
3. G&A Reductions - We are on track to keep our G&A under \$59 million for FY25. Our actuals (\$20 million) are close to plan (\$19.9 million).

FPI's investments continue to perform exceptionally well. Our plan was to earn \$4 million; to date we have earned \$6 million.

As of June 2023, due to limited resources in the Accounts Payable (AP) department, FPI faced a backlog of 3,387 delinquent invoices, including 1,800 past due. To address this issue, we implemented a corrective action plan aimed at improving efficiency and reducing outstanding payments. We are pleased to report that as of yesterday, the number of past-due invoices has been successfully reduced to fewer than 50 per day for the past three weeks.

III. General Manager Presentation

Ms. Telfare provided an overview of the different divisions that make up the Services Business Group and explained the knowledge and skills inmates gain. Divisions include:

- Call Centers and Data Services
 - FPC Bryan and FCI Tallahassee
 - Inmates gain knowledge and skills in data entry, lead generation, customer service, and account profiling
 - Data centers maintain vehicular management data for federal customers
- Distribution and Plastic Services
 - FCC Petersburg
 - Serve our institutions and others by providing boots, admin kits, and foot service products
 - Anticipate expansion to support optics by utilizing our injection molding machines to produce eyeglass frames
- Filter Services
 - HEPA, Cartridge, Cube, and Multi-Stage Filters
- Laundry Services
 - Eglin Air Force Base and Maxwell Air Force Base
 - Provide laundry services to any federal agency within 150-mile radius
- Print and Sign Services

- FCI Sandstone
 - All signs comply with the American Disabilities Act (ADA)
 - Provide seals for government colleagues
 - Provide graphic design
- Optics
 - BOP is the optics lab's biggest customer for prescription eyewear
 - Currently manufacture approximately \$2.2 million in eyewear per year, which equates to approximately 150 pairs of eyeglasses a day
 - Recently launched a new line of reading glasses
 - Negotiating multiple new repatriation opportunities with private companies

Mr. Elliott asked if there are any opportunities in all the chaos and executive orders. Ms. Vassilopoulos mentioned OFG has furniture available for federal employees returning to federal offices, and the Fleet Solutions Group will have vehicles for U.S. Customs and Border Protection.

IV. Action Items/Legal Updates

Ms. Cantwell welcomed the new Board members. She provided a legal/legislative update.

The Board approved draft meeting minutes from the November 6th Board meeting.

Ms. Cantwell discussed potential dates and locations for upcoming Board meetings and provided the Board with legal updates.

The meeting adjourned.

At the end of meeting, the Board participated in an Executive Session to discuss confidential/attorney-client privileged matters.

/s/

For: Assistant Director/CEO