

FPI BOARD OF DIRECTORS MEETING
September 19, 2025

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

IN ATTENDANCE:

David Spears, Chair
Donald R. Elliott, Vice Chair
Jolene Lauria, Member
Lee Lofthus, Member
Monty Wilkinson, Member

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Seth Bogin, Chief of Staff, Federal Bureau of Prisons (BOP)
Oleta Vassilopoulos, Acting Assistant Director/Chief Executive Officer, FPI
Jim Mitchell, Acting Deputy Assistant Director, FPI
Marianne Cantwell, Acting Deputy Assistant Director, FPI
Steven Thaler, Acting General Counsel, FPI
Edward Porras, Chief Financial Officer, FPI
Valery Logan, Executive Assistant, FPI

Chairman Spears opened the meeting and thanked everyone for their participation. He informed the Board that Dee Reardon submitted notice the previous evening that she was retiring from the Department of Defense (DoD) and resigning from the FPI Board of Directors effective September 30, 2025. He acknowledged her contributions and stated FPI would coordinate with Department of Justice (DOJ) leadership to initiate the process of identifying a new DoD representative due to the importance of that role for customer coordination. He noted the Board would ideally recognize Ms. Reardon at a future in-person meeting.

The Chair noted that the BOP Director was traveling and invited Mr. Bogin to provide remarks on his behalf.

I. Director's Office Update

Mr. Bogin briefed the Board on the Director's and Deputy Director's recent activities. Since appointment in April and June, respectively, the Director and Deputy Director have visited 20-30 institutions. Leadership is prioritizing improvements to communications, access for volunteers, and expanded rehabilitation opportunities, which directly supports UNICOR's mission. During site visits, they routinely tour UNICOR factories and vocational programs, emphasizing the importance of expanding meaningful inmate work opportunities. The Director's Office remains strongly supportive of UNICOR and continues to explore ways to broaden inmate access to work programs.

Board members asked about food service issues, staffing, and retention. Mr. Bogin noted that hiring improved with direct-hire authority and that retention challenges stemmed from insufficient training and supervisory support. BOP is addressing training gaps, leadership development, and institutional culture. Retirement surges at year-end temporarily depress staffing numbers.

II. Assistant Director/Chief Executive Officer's Report

Ms. Vassilopoulos began by acknowledging the Director's Office for its sustained support of FPI. Recent engagement from the Director and Deputy Director has strengthened field-level communication, assisted in navigating blanket purchase agreements (BPAs), and promoted the importance of purchasing from UNICOR.

She stated that the primary purpose of this meeting was to present the FY26 Operating Plan. She highlighted that FPI last earned an operational profit in fiscal year (FY) 2019 and FPI incurred \$39 million in operational losses from FY22-FY24. FY25 corporate earnings are projected to be nearly \$20 million, but operational results remain around break-even. Transparency in reporting and accurate financial representation remain priorities.

The Clothing and Textiles Group (CTG) continues to have the most significant financial challenges. Despite adjustments in FY25, the business group remains unprofitable and has offset gains in other areas. Efforts underway include stricter pricing agreements, increased oversight, a temporary detail program to support institutions with staffing constraints, and footprint reductions. She emphasized the need to rebuild customer relationships, including with the DoD.

The Services Business Group (SBG) has shown strong improvement, becoming profitable in July and earning roughly \$250,000 in August. The Fleet Business Group (FBG) earned nearly \$500,000 after general and administrative expenses (G&A) in August and is preparing for significant growth based on projected Customs and Border Protection (CBP) vehicle demand, which may increase workload to approximately 450 vehicles per month.

Since November 2024, cost optimization teams have visited 14 locations, identifying immediate corrective actions and broader recommendations. These findings will inform discussions at FPI's upcoming Leadership Summit. She noted the visits have reinforced accountability and corporate engagement across business groups.

Prior year financial audits are near completion, pending final management review. The Accounts Payable backlog has been reduced from about 3,000 invoices to fewer than 50, with stable ongoing performance.

This year's budget cycle remained on track, with closer oversight from the Financial Management Branch (FMB) and more conservative forecasting. Ms. Vassilopoulos expressed confidence that the FY26 plan represents a realistic projection.

Pricing work remains ongoing due to shifting requirements across factories. Key efforts include updated pricing agreements, stronger labor-costing practices, SAP training, and reinforcing

business-minded operations.

FY25 sales are projected at approximately \$470 million (11% over plan). Despite this growth, gains continue to be offset by CTG losses and costing issues in FBG. FPI also completed a significant excess and obsolete inventory review, removing approximately \$1.2-1.3 million to improve accuracy in reporting.

Initiatives continue around accountability, communication, and positive culture building. FPI will begin sharing monthly success stories from each business group. Data and reporting challenges persist but are expected to improve with recent staffing adjustments.

On October 1-2, 2025, there will be a Leadership Summit which will focus on long-term strategic planning, threats, opportunities, revenue, growth, and customer service.

Preparations continue for DOJ industry day at Main Justice, tentatively scheduled for October 22 or October 30. FPI will showcase vehicles, factory demonstrations, and stories from former inmates.

Board members congratulated the team on improving trends and raised questions on vehicle availability, capacity for increased CBP demand, fleet pricing risks, and audit timelines. Ms. Vassilopoulos confirmed vehicles are arriving more consistently, preparations for increased production are underway, pricing oversight remains a priority, and FY25 audits are on track for timely completion.

III. Long Term Strategy

Mr. Mitchell presented FPI's long-term strategy. He opened by acknowledging that earlier projections were off; FPI will not finish the year with the anticipated \$2 million positive result at the operational level. Two factors contributed: a \$3 million write-off in excess and obsolete inventory (vs. \$1.7 million planned) and delayed revenue/earnings from FBG. While current performance is not where it needs to be, he emphasized the organization is trending upward compared to the \$39 million in operational losses over the past three years. Most obsolete inventory was concentrated in the Electronics Business Group (EBG). Mr. Mitchell stressed the importance of transparency in financial reporting to set the new CEO up for success.

Over the last 16 months, conversations across the organization have increasingly centered on margins. He highlighted a genuine cultural shift toward understanding profitability, discipline, and financial accountability.

Mr. Mitchell outlines key opportunities, particularly BPAs and FPI's broad production network. Significant threats were also identified: slowed government purchasing and customer hesitation; perception issues and inconsistent external communication; pricing and margin challenges, including cases where losses stem from insufficient volume rather than incorrect pricing; and reductions in sales tied to product mix and optics.

The activity rate is an analytical tool that calculates the minimum value added required per direct

labor hour to cover factory overhead. This tool will support more accurate pricing discussions but must be paired with volume assessments to fully diagnose issues.

Mr. Mitchell introduced FPI's newly launched Phoenix Project. Its purpose is to evaluate enterprise-wide threats and build a long-term plan for sustainable growth. Among other things, emphasis was placed on: FPI cannot achieve sustainability by continually reducing footprint or G&A; growth in sales, not just cuts, is the long-term strategic path; FY26 is considered "year zero," as changes implemented now will not show full results until future years; the project includes multiple workstreams focused on margin improvement, sales expansion, operational efficiency, and customer development; and closing factories might produce short-term financial gains but it undermines FPI's mission of inmate training and reduced recidivism.

Cost optimization teams are preparing to start visiting FPI's best-performing sites to identify replicable practices. Follow-up visits will also occur at locations previously reviewed to ensure recommended changes are being implemented.

FPI has created a new Account Executive role for the BOP to streamline customer interactions across business groups. Mervin Sauder, an Operations Manager from the Office Furniture Group (OFG) will serve as the first Account Executive. His SAP knowledge and tenacity were noted as strengths. More positions may be added for other major customers.

IV. Financial Update

Mr. Porras began by proposing a change to how operational income is presented. Historically, income received from the BOP for shared building occupancy was included in operational income, even though related expenses were also embedded in operational costs. With BOP now occupying more than 70% of the building's space (up from under 50%), associated costs have significantly increased.

Because those expenses are fully offset by income received from BOP, Mr. Porras recommended removing them from operational expenses to provide a clearer, more accurate picture of factory performance. This adjustment would reduce operational expenses by approximately \$2 million and shift FY25 from a \$900,000 operational loss to roughly \$1 million in operational profit. He emphasized that this change improves transparency and aligns G&A distribution more fairly across business groups.

Board members confirmed their understanding of the change, noting that factory earnings have historically been distorted by Washington-based rent and overhead costs. They expressed support for removing these charges from factory-level reporting. Mr. Porras also explained the variance between planned and actual lease expenses, citing elevator replacements and increased maintenance costs following the return of on-site staff and BOP teams. With no objections, the Board signaled consensus for management to proceed with the proposed reporting change.

Mr. Porras reported that FY25 net income is approximately \$19 million through August 11. Operational income is -\$900,000, primarily due to elevated cost of sales in key business groups. Cost of sales issues include CTG (104%), EBG (111%), and FBG (98%).

G&A currently stands at 12% and is on track to fall below the planned G&A of \$59 million, with actual spending at \$52 million to date.

Sales performance is strong. Sales are \$50 million above plan. The Recycling Business Group (RBG) is \$7 million above plan. FBG is \$75 million above plan, driven by vehicle inflows and ASC 606 revenue timing. OFG is \$9 million above plan. Investment earnings total \$14.6 million, outperforming expectations.

For business group earnings after G&A, RBG and OFG are performing well. The Agribusiness Group (ABG) and EBG are better than planned but still challenged. Other groups reflect losses that FPI continues to manage through oversight and cost controls.

The Board raised concerns about CTG's escalating losses, noting the FY25 forecasted loss of nearly \$18 million compared to a planned \$7.7 million. Mr. Porras and Ms. Vassilopoulos shared a historical analysis showing CTG's decline after the loss of mandatory source contracts around 2014.

Mr. Porras presented the FY26 Operating Plan, which adopts a conservative approach in light of federal budget uncertainty, potential shutdowns, market constraints, and tariff impacts. The Plan includes projected sales of \$431 million; projected net income of \$24 million; and a reduction in G&A from \$59 million to \$53 million (10% decrease), largely within business groups.

Mr. Porras emphasized the need to closely monitor G&A cuts to ensure they do not impede future growth or revenue generation. Ongoing forecasting will be used throughout FY26 to adjust assumptions as conditions evolve. He also noted that IT modernization, including replacement of 10+ year old servers and system upgrades, drives stability in corporate level G&A.

FMB's \$9.2 million budget reflects audit requirements, SAP module needs (including e-invoicing mandates), and regulatory compliance. Budget planning involved a line-by-line review with organization-wide participation.

Board members acknowledged the effort to reduce G&A, noting that overall spending reflects meaningful discipline and that unavoidable infrastructure costs explain corporate totals.

A motion was carried by the Board to accept the operating plan as presented for FY26.

V. Upcoming Board Meetings

The Board approved draft meeting minutes from the previous meeting.

Ms. Cantwell shared updates to the Board meeting calendar. Meeting frequency for 2026 was discussed, noting past approaches of four versus six meetings per year. Recent years have used six meetings due to the level of operating issues and oversight needs. The Board decided to continue holding six meetings per year for the near term given ongoing operational improvements and follow-up needs; upcoming onboarding of a new Chief Executive Officer; and

newer Board members still becoming familiar with key issues. A proposed 2026 schedule will be created and shared, generally using the third Wednesday of the selected months.

VI. Board Resolutions

Ms. Cantwell presented a Board resolution for network infrastructure replacement at approximately 50 field locations. In 2020, the Board had previously approved \$1.9 million for the first year of a project that was expected to total nearly \$6 million over multiple years. The project was delayed due to the pandemic and technical factors. Due to technological changes and updated pricing, the new proposal has a total project cost of approximately \$2.4 million over three years, which is significantly less than the originally anticipated \$6 million.

Board members raised broader questions about UNICOR managing its own IT environment versus moving toward shared services with BOP. FPI members explained that UNICOR's current infrastructure already exists and must be maintained in the near term. The proposed equipment is Cisco-based and compatible with BOP, deliberately chosen to support a future shift toward shared services. Certain constraints such as inmate access to FPI systems and differing help desk structures complicate immediate full integration, but FPI is actively pursuing shared approaches where feasible, including a joint network bandwidth contract with BOP.

The Board requested that the record clearly reflect that the original project was never fully executed. The previous \$1.9 million authorization was not spent, and this is a new, updated request for a total of \$2.4 million over three years.

The Board approved the network infrastructure replacement resolution.

Ms. Cantwell provided early notice of two items expected at future meetings. The first is elevator replacement in FPI's Central Office building. The elevators were installed in 1996 and are now past their useful life, frequently breaking down, and parts are increasingly difficult to obtain. An architectural and engineering (A&E) firm is being engaged to scope and cost a replacement project. A formal proposal and resolution will be brought to the Board at a future meeting.

The second early notice is on a review of FPI's inmate pay rates. Current rates have not increased since 1990. A future paper will include historical context, an updated analysis of the conditions that led FPI to decide not to increase rates in 2017 when this issue was last considered, and FPI's recommendation for Board consideration.

The Board expressed support for further analysis and requested that relevant historical materials be included when the item is brought forward.

VII. Action Items/Legal Updates

Mr. Thaler provided a brief legal update. He noted that Legal is finalizing the FY25 liability report. There are no threatening legal issues with the interim legal liability report. He also updated the Board on legislative developments regarding the FY26 National Defense Authorization Act (NDAA) and the House report on the Commerce, Justice, Science, and Related Agencies

Appropriations Act.

Mr. Thaler shared three recommendations FPI sent to the DOJ for inclusion in the Federal Acquisition Regulation (FAR) overhaul affecting Part 8 (mandatory sources), particularly FAR 8.6. The changes to the FAR are expected to take effect in early November.

The meeting adjourned, and the Board participated in an Executive Session to discuss confidential matters.

/s/

Todd A. Plimpton, Chief Executive Officer/Assistant Director