



Dear Director Ryan:

It is a pleasure to be part of Arizona Correctional Industries 25th Anniversary, which is a celebration of the people, passion, character, and strength that has built this company. This opportunity represents more than the chance to look back on historical success but also gives us a chance to reflect on the solid foundation built for our future growth.

Fiscal year 2012 proved to be another strong year for our company, allowing us to surpass last year's sales even in a challenging overall economy. Sales increased 12% to \$38,450,425 with a net income of \$3,184,149 and inmate hours worked increased by over 304,000 with 3,812,848 total inmate hours worked. As we began fiscal year 2012, we faced an unstable state economy that forced ACI to concentrate on managing the aspects of our business that we could control: mainly marketing, operating processes, quality, and our balance sheet.

Marketing became a bigger priority within ACI as witnessed by our improved web site, more focused advertising, innovative new custom products, and a new easy to assemble trade show display. Marketing will continue to be a focus in FY 2013 with the planned hiring of a full-time marketing manager and renewed emphasis on web sales, direct e-mail marketing, and phone campaigns to build brand awareness. We believe these efforts will significantly impact our ability to increase inmate employment.

An expanded concentration on quality during the past fiscal year resulted in several changes in our lean continuous improvement program. A relocation of the program to Florence will allow the new program manager to focus on our Owned and Operated shops as well as critical processes. This will align ACI more closely with lean trends in the private sector and will help facilitate the training of all associates and inmates in lean thinking.

We are fortunate once again to utilize the results of the Arizona State University WP Carey School of Business, Seidman Research Institute study that estimates the economic impact of ACI to the State of Arizona. This year the estimated economic impact was \$187,430,000 and resulted in the creation of 2,080 jobs in the private sector.

As we celebrate our 25th year, mindful of the challenges and responsibilities of this business, we sincerely thank you for your leadership, and our Advisory Board, associates, customers, and suppliers for their dedication, interest, and support throughout the year.

Sincerely,

A handwritten signature in blue ink that reads "Brian Radecki".

Brian Radecki
CEO/General Manager