

STEEL KING

To: All Valued Steel King Customers
From: Jay Anderson, President
Date: January 28, 2004
Re: Steel Costs and Product Pricing

Undoubtedly you have been reading and hearing about increasing steel costs. At the present time, a number of factors are enabling steel producers to impose drastic price increases and surcharges, with very little notice. These surcharges are applied to all previously accepted orders and contracts, leaving us unable to know the costs of future projects. The January surcharge was about 5%, and the February surcharge was about 10% (in addition to base prices that have increased by one-third). We expect surcharges to continue for some time. Enclosed you will find information from steel suppliers, and an article from the Wall Street Journal, explaining the causes in detail.

The cost of steel is the primary cost driver for storage racks and related products. The severity of this problem is amplified by the fact that for the past few years prices for storage racks have been at all time lows. Steel King has made many changes to reduce our cost structure, but at current pricing there is no cushion to absorb material cost increases of this magnitude.

Make no mistake about it; in the storage rack industry, this is a very serious (survival) situation. There have already been casualties within our industry.

Regrettably, Steel King Industries has no choice but to change our pricing procedures. Effective immediately, the following actions are being implemented, and apply to all orders including those in house:

- **Schedule:** On the third Monday of each month, and continuing every month up until 1 month before your scheduled delivery, a material surcharge will be established, and communicated to you via email or fax. This surcharge will be on the basis of cents per pound, and will be applied to all orders which ship after the third Monday of the following month. For example:

<u>Announcement</u>	<u>Effective starting</u>	<u>Effective Through</u>
Today	2/16/2004	3/14/2004
2/16/2004	3/15/2004	4/18/2004
3/15/2004	4/19/2004	5/16/2004

- **Substantiation:** The surcharge amount will be based upon the actual material surcharge imposed by Nucor, whose lead other steel companies are following. A PDF of Nucor's then current surcharge policy will accompany this announcement. Currently, the material cost surcharge is the same on structural and coil. If they become different, we will adjust the surcharge by product type.
- **Amount:** The current surcharge paid by Steel King, announced on January 19, 2004 and effective February 1, 2004 is \$0.0245 per pound. Therefore, your current order in house will increase in cost by \$0.0245 per pound up until March 14, 2004. By that time, you will have already been informed of the next surcharge amount, scheduled for announcement February 16, 2004 and applicable to shipments occurring from March 15, 2004 thru April 1, 2004.
- A notation will be made on proposals and order acknowledgements concerning surcharges.

We understand the concern of your company regarding these changes. We assure you that this is an industry-wide problem, controlled not by Steel King Industries or other users of steel, but by steel producers. We take these actions reluctantly, regretting the difficulty they insert into business relationships, but do so out of

economic necessity, to ensure our ability to serve your needs into the future. The 300+ families of Steel King Industries appreciate your continued support.