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POTENTIAL IS INTERESTING; PERFORMANCE IS EVERYTHING

April 14, 2005

Dear Limited Partners:

Performance Review for 2004 & 01 2005

Steel Partners II's capital appreciated approximately 37.7% for the twelve months ended December 31, 2004, before the General Partner's profit allocation but after all fees and expenses. After the 20% allocation to the General Partner, the Limited Partners earned a 30.2% return on investment.

For the three months ended March 31, 2005, Steel Partners II's capital depreciated by approximately -0.5%.

Investors who have been with us from inception (October 1993 - March 2005) have received a total gross return of 1,249% and a gross compounded annual rate of return of 25.4%. This has been achieved with very little leverage and minimal taxable income due to our long-term investment horizon, low portfolio turnover, and focus on after tax returns.

Our performance since inception is listed below for your review:(3)

	Gross(1)	**Net**(2)
1993 - 4th Qtr.	6.9%	5.5%
1994	21.3%	17.0%
1995	26.9%	21.5%
1996	16.0%	12.8%
1997	60.0%	48.0%
1998	22.4%	17.9%
1999	48.4%	38.7%
2000	19.1%	15.3%
2001	8.1%	6.4%
2002	12.3%	9.9%
2003	22.1%	17.7%
2004	37.7%	30.2%
2005 - 1st Qtr.	-0.5%	-0.5%

1) Gross Returns are after all expenses but before GP's profit participation.
2) Net Returns are Gross Returns less the GP's 20% profit participation.
3) Audited financial statements are available for each year.

The Evolution of Steel Partners

Steel Partners began fifteen years ago with a little bit of capital, a lot of entrepreneurial spirit and a tremendous amount of determination. We wanted the ability to invest in all layers of the capital structure and to be long-term shareholders who could buy a business, or a piece of a business, at an attractive valuation (i.e., a discount to intrinsic value). We also wanted to be either a large stakeholder with the ability to influence the future direction of a company or to have control. We needed a built in margin of safety in order to protect our downside and to be able to invest with a long-term orientation. The same holds true today. Our first objective has been and always will be - the preservation of our capital.

We never planned on being in the money management business even though we always intended to manage our capital. We simply wanted to buy and build businesses. Today we view Steel Partners II, L.P. as a tax efficient holding company and as a platform to manage our investments and operate businesses.

Additionally, our organization has grown from two people in a 75 square foot office with three investors to 20 professionals in multiple locations around the world with over 100 investors.

Today some people call Steel Partners a "hedge fund." We call ourselves "A Private Investment Partnership." A "hedge fund" is not an investment strategy or philosophy; it is simply a fee structure.

Steel Partners has been in many different businesses over the years from industrial manufacturing to banking to defense. We have developed an in-depth understanding of companies involved in business services, electronic components, defense, finance, health care and interesting special situations like conglomerates.

Equally as important, we know our limitations and have learned that sometimes the best thing to do is NOTHING. We do not and will not invest in businesses we do not understand or are out of our circle of competence. Therefore, we still don't invest in biotech.

Our experiences have taught us that we are better off holding a business we own and managing it for the long-term if we have sufficient capital and the right people to operate it, rather than to sell the business for a short-term profit. Our strategy to buy, hold and build has allowed us to earn multiples on our invested capital over an extended period of time (like in SL Industries, Continental Materials, United Industrial Corporation, etc). We would rather earn five times on our money over five years than have an eye-popping 100% IRR over four months.

Patience is a very important part of our core strategy and philosophy, in fact, Steel Partners II L.P. still owns shares in our first investment which we purchased in October 1993 - P & F Industries, Inc. Our cost was $2 and today its shares are trading over $13 (perhaps not a great IRR but a very respectable return on our invested capital).

Compounding is a wonderful phenomenon, which we are really beginning to appreciate.

Mr. Market - Conditions and Opportunities

Opportunities arise every day regardless of the overall market and we need to be able to capitalize on those opportunities by being agile and flexible. While most investors would like to see a steady increase in the value of the securities they own, we prefer that our investments don't move up too quickly thereby giving us an opportunity to accumulate a very large position and earn a greater return.

Conversely, it is very hard for us to buy shares in a particular company when the shares are quickly moving up. We just can't seem to get past the idea of paying $45 for a stock that was trading at $35 one week ago even if we think it is worth $60.

While a market decline may temporarily reduce the value of our overall portfolio and cause us to have negative returns, if we have done our homework correctly, the end result should be above average returns for our Partnership over the long-run.

It is important to remember that we are long-term investors who focus on after-tax returns, and are generally not alarmed by the negative psychology or volatility of the stock market. Volatility provides us with the opportunity to aggressively buy when others are aggressively selling.

The Value of Relationship Investing and Being a Long-Term Shareholder

Today, the pendulum is swinging to a more shareholder friendly environment. The so called hedge funds, mutual funds and institutional investors with their large pools of capital are learning to protect their investments by becoming more vocal and acting like owners, instead of passively sitting on the sidelines hoping that something will magically change and enhance value for everyone. This is creating more and more opportunities for Steel Partners to demonstrate and participate in value enhancing investment situations where we can apply our skills and knowledge.

Steel Partners is often the largest shareholder in a portfolio company and we believe that by being in constant contact with the managers, directors, and other stakeholders of the companies in which we invest we can enhance the probability of our success by knowing as much as we can about a particular investment at any point in time.

Shareholder activism is gaining momentum and not just in the U.S.A. Shareholders around the globe are more vocal than ever and are exercising their rights to hold boards and management accountable. Look at what's happening in England, Japan and even Germany. It will be interesting to see if this is a new type of longer term (risk) arbitrage or a fundamental shift in the way investors think and behave.

Leadership

Honest and ethical leadership is extremely important. We believe that if a company has a strong shareholder base who are actively involved with a Company the probability of success increases. If the owners abdicate responsibility and accountability, then a Company begins to get sloppy and performance suffers. A Board of Directors is empowered to act on behalf of the shareholders and to protect their interests. Here too we are seeing a shift in the way directors think and behave; the country club mentality is breaking down. Personal relationships are taking a backseat to professional responsibilities and fiduciary obligations.

A Board of Directors has the responsibility to make important decisions, which include choosing the right CEO, approving a strategic plan, holding the management team accountable for the implementation of that plan, as well as structuring how senior management gets paid. It is very important to align everyone's interests with those of the shareholders.

Choosing the right person to be the CEO of a company is no easy task. If we look at today's divorce rate (where you get to choose your spouse after an extended period of time), we should not expect a board's batting average to be much higher. Interestingly, the average tenure of a CEO is becoming shorter and shorter, which is leaving many companies without the proper leadership they so desperately need.

GE uses a system (which we think makes a lot of sense) to categorize the leaders of their business units based on performance and shared values. The breakdown is as follows:

Type I: shares our values; makes the numbers - sky's the limit! Type II: doesn't share the values; doesn't make the numbers - gone. Type III: share the values; misses the numbers -typically, another chance, or two.

None of these three are tough calls, but Type IV is the toughest call of all: the manager who doesn't share the values, but delivers the numbers: the "go-to" manager, the hammer, who delivers the bacon but does it on the backs of people, often "kissing up and kicking down" during the process. Type IV is the toughest to part with because organizations always want to deliver -it's in the blood- and to let someone go who gets the job done is an unnatural act. But we have to remove these Type IVs because they have the power, by themselves, to destroy the open, informal, trust-based culture we need to win today and tomorrow.

The CEO who delivers short-term performance by overleveraging the future of the Company is not doing anyone any favors. Eventually it will weaken the organization and alienate people. A CEO needs to properly allocate capital and not waste money.

Companies need CEOs who practice what they preach. When a well known CEO of a large investment bank wanted to keep expenses under control he didn't just send a memo through the office, he himself started to save and reuse paperclips. He led by example!

At Steel Partners, we have learned to empower people and hold them accountable. We reward success and quickly change things that aren't working.

Scale is Important and Bigger is Better

As our asset base grows, we continue to increase the size of the companies we invest in. We believe that by sticking to our philosophy of owning 10-20% (on average) of 20 to 30 companies, we can invest significantly more capital. We are constantly monitoring the upside/downside in our portfolio and won't raise additional capital if we have significant upside for fear of diluting our existing investors, including ourselves. Additionally, we maintain the discipline of having a concentrated portfolio. We have demonstrated that we can be effective and successful if we own 15% of a company regardless of size.

Our experience has shown us that bigger is better. Bigger businesses have better people, better systems, spend more money on research and new product development, and typically have better access to capital; all of which we believe reduces our risk.

Bigger companies may also have larger inefficiencies. Many big companies have bloated cost structures and overpay for goods and services.

A case in point: I recently attended a board meeting where one topic was D&O insurance. Since most people in attendance were directors or officers, everyone was concerned with the amount of coverage but no one was concerned with the price. Value vs. price is a never ending debate. Don't you think one should at least ask the price before one buys?

Management and Infrastructure of the Partnership

We have a terrific management team with extensive operational, managerial, financial, legal and practical experience. Together, we manage the affairs of Steel Partners II and enjoy every minute of it. In fact, we are having more fun now than ever.

We are pleased to announce the addition of Luke Wiseman and Ruth Fawcett to Steel Partners. Luke Wiseman joined us in February (although I have been trying to get Luke to join Steel Partners for over five years) to head up our European efforts. Prior to joining Steel, Luke was an analyst and portfolio manager at Carlson Capital (UK). Prior to this, Luke had more than ten years experience working as an equity research analyst at DLJ. Before joining DLJ, Luke worked at UBS where just prior to its merger with SBC Warburg, he was appointed co-head of European Equity sales. Luke also spent four years as a member of the management team of Tayrich Ltd., a privately owned commercial floor coverings distributor based in the UK. While there he had a number of responsibilities and managed the successful sale of the business to Readicut plc.

Ruth joined our firm in the third quarter of 2004 and spends half of her time with Steel Partners and the other half with Liberty Square Asset Management. Ruth is also based in London but frequently comes to the States for business. Prior to joining Steel Partners and Liberty Square, Ruth worked at Capricorn Management GP as an investment advisor as well as Knox D' Arcy Investment Management Ltd. as a portfolio manager.

We also have great partners at Liberty Square Asset Management and Steel Partners Japan K.K., including Yusuke Nishi and Kenzo Kuroda.

Terms of the Limited Partnership

As many of you are aware, we will be amending the terms of our Partnership. The most important changes are an increase in the investment lock-up period from one year to three years and an increase in the initial minimum subscription from $5 million to $10 million. The extension of the lock up period will allow us to more closely match the holding period for our investments, which currently runs 3-5 years or longer. All money invested prior to July 1, 2005, will be grandfathered under the terms of the existing Partnership Agreement. Any additional contributions, however, will be subject to the new terms.

Given the extension of the Fund's lock up period we will be exempt from registration as an investment adviser when the new rules go into effect in February 2006. It is our intention to comply with the spirit of the rules and continue to implement best practices of sound internal controls and policies.

<u>New Positions and Company Updates</u>

Information and annual reports on almost all of these companies can be obtained by visiting their websites or by contacting the companies directly.

Good investment ideas are rare and valuable; therefore, Steel Partners II is continuing its policy of only discussing specific investments after Steel Partners II owns 5% or more of a company and has filed a Form 13-D with the SEC or the equivalent filing in another jurisdiction. Additionally, we will not be discussing our investments in distressed debt until we make a public disclosure.

We continue to maintain a concentrated portfolio. We own over 10% of the outstanding shares in 16 companies (including nine in which we own over 15%) and we are the largest shareholder in 10 companies. Additionally, we have approximately 10 percent of our assets invested in the Steel Partners Japan Strategic Fund.

Steel Partners currently owns 5% or more in:

Angelica Corporation (NYSE: AGL), API Group PLC (API - LN) a U.K. company, Argan Inc. (OTC: AGAX), Bairnco Corporation (NYSE: BZ), BKF Capital Group, Inc. (NYSE: BKF), BNS Co. (OTC: BNSXA), Continental Materials Corporation (ASE: CUO), Cronos Group (NASDAQNM: CRNS), Del Global Technologies Corp. (OTC: DGTC), Delta PLC (DLTALN) a U.K. company, ENPRO Industries Inc. (NYSE: NPO), Gateway Industries, Inc. (OTC: GW A Y), GenCorp Inc. (NYSE: GY), IKON Office Solutions Inc (NYSE: IKN), JPS Industries (OTC: JPST), Layne Christensen Co. (NASDAQNM: LA YN), Nashua Corp. (NYSE: NSH), Nathan's Famous (NASDAQ: NATII), Nettec PLC (NTC - LN) a U.K. company, Novoste Corporation (NASDAQNM: NOVT), P&F Industries, Inc. (NASDAQ: PFIN), Ronson Corporation (OTC:RONC), Rotech Healthcare Inc. (OTC: ROHI), SL Industries, Inc. (Amex: SLI), Strategic Distribution, Inc. (NASDAQ: STRD), United Industrial Corporation (NYSE: UIC), and WebFinancial Corporation (NASDAQ: WEFND).

NEW POSITIONS

IKON Office Solutions Inc. (IKN) (www.ikon.com) - Steel Partners II owns approximately 6% of IKON and is one of the company's largest shareholders. IKON is the largest independent distribution channel for copiers and printers. The Company distributes for Cannon, Ricoh, Konica Minolta and Hewlett-Packard.

We first acquired shares of IKON after it sold most of its captive leasing business to GE for $2.0 billion. The Company retained $1.1 billion dollars of leases which will unwind over the next 18 months, thus generating additional cash for IKON.

Although the leasing business was highly profitable, it was a capital intensive business that competed with much larger finance companies (including GE) whose cost of capital is much lower than IKON's. As part of the sale of the leasing business, IKON signed an agreement with GE making GE IKON's preferred leasing partner. In return, IKON generates origination fees for all sales that are financed by GE.

By selling its leasing business, IKON has gone from a highly leveraged, negative cash flow company to an underleveraged cash flow machine. They have used this cash to call $250 million of bonds and repurchase stock.

Additionally, the management has embarked on a plan to boost sales and operating margins to $5 billion and 6%, respectively over the next 18 months. At today's stock price, we believe we are creating our interest in the Company at a very attractive price.

Delta PLC (DLTA- LN) (www.deltaplc.com) - Steel Partners II owns 6.55% of Delta PLC. Delta is an international industrial group headquartered in the UK and listed on the London Stock Exchange. Delta has operations in Australia, South Africa, Asia Pacific and the United States and employs over 4,500 people.

Delta has three businesses: manganese, galvanizing and industrial supplies.

Delta's manganese businesses include Delta EMD, a leading global supplier of Electrolytic manganese dioxide for the manufacture of dry cell batteries, and Manganese Metal Company, a leading global supplier of manganese metal for the manufacture of steel, aluminum and electronic components.

Delta's galvanizing businesses provide hot dip galvanizing services and fabricate galvanized steel products in Australia, Asia-Pacific and the United States (a business we know more about than we would like to admit).

Delta's industrial supplies businesses are located in Australia and South Africa and supply goods and services to the mining and construction industries, including grinding media, ground engaging tools, replacement parts and electrical repair. This business is currently for sale.

Delta is an investment whose parts add up to more than the whole, leading us to believe the company is worth significantly more than its current stock price.

Unfortunately, Delta's Chairman and largest shareholder was tragically killed a few months ago. However, many of Delta's large shareholders are like minded and are helping to fill the leadership void. We believe the strategic plan will continue to be implemented for the benefit of all the stakeholders.

WHX Corporation (www.whxcorp.com) - WHX is the holding company for Handy and Harman, a $400 million revenue manufacturer of industrial products including metal fasteners, metal and alloy tubing and brazing and soldering equipment. In addition to this portfolio of businesses, the Company has a net operating loss carry forward in excess of $100 million.

WHX filed for bankruptcy in March 2005 since it could not repay its 10.5% Senior Notes which came due in April 2005. Steel Partners II is the largest bondholder of the Senior Notes and Josh Schechter is the Chairman of the Unsecured Creditors Committee. As of today, bondholders will receive most of the equity in a reorganized WHX, which would make Steel Partners II the largest shareholder in the Company. We are excited about the opportunity to own these various businesses in a tax-efficient entity.

COMPANY UPDATES

API Group PLC (API - LN) (www.apigroup.com) - Steel Partners II and WebFinancial own just under 30% of this London based company and together are now the Company's largest shareholders. The company has operations in the UK, China and the United States where they manufacture specialized packaging and security products used in the beverage, food, luxury and consumer goods sectors. The new management team has executed their plan to divest several underperforming businesses leaving us with a core group of very profitable niche businesses. This is another situation where the sum of the parts is worth more than the whole.

On April 13, 2005 the Company disclosed the following: "On February 11, 2005 the Board of API announced that it had received a preliminary approach which may or may not have led to an offer being made for the Company. Detailed discussions have been held with the interested party but those discussions have now been terminated. As a result, with immediate effect, the Company is no longer in an offer period."

Baby Phat (Private - BP Holdings LLC) (www.babyphat.com) - BP Clothing, LLC, owns the license to design, manufacture, and sell the Baby Phat women's apparel label. Baby Phat had over $60 million in revenue in 2004, was profitable and is growing rapidly. The Company is doing great, and we are exploring a recapitalization in order to return capital to the shareholders.

BKF Capital (NYSE: BKF) (www.bkfcapital.com) - Steel Partners II owns 9.5% of BKF a New York based asset management company with about $13 billion under management. The company provides investment advisory services including wrap accounts, managed accounts and also runs several hedge funds with about $3.5 billion under management. Additionally, the Company has no debt, approximately $10 per share of cash, and over $100 million of revenue a year. The Company's shareholder base is comprised of well known value investors, 15 shareholders who own 65% of the Company.

After trying to privately and publicly convince BKF to alter its governance and compensation structures, we felt we were left with no alternative but to nominate an independent slate of directors for the 2005 annual meeting. We nominated three directors – Ron Labow, Kurt Schacht and me.

Our proxy statement calls for the Board to redeem its poison pill, to de-stagger its board of directors, to explain why the CEO's children are on the payroll, and to reduce its compensation expenses so that its profitability would be in line with other publicly traded money managers. We also suggested the Company hire an executive officer who could lead the Company to profitability.

We were not the first stockholders to call for changes to the Company's corporate governance. In each of the past three years, Gabelli and Company submitted a proposal to eliminate the poison pill. Despite resounding shareholder support, the Company kept it. Additionally, Opportunity Partners submitted a proposal requiring BKF to hire an investment banker to supervise the sale of the Company to the highest bidder.

In early April, BKF responded by announcing that it would submit proposals to declassify its Board of Directors over a three year period, to waive certain terms of the poison pill so that a potential buyer of the Company could tender for all of the shares of the Company and could close the tender so long as greater than 50% were tendered and to eliminate supermajority stockholder requirement for mergers and other business combinations. The Company also declared a special dividend of $0.925 per share and said that it would distribute 70% of the Company's free cash flow (although that would likely be zero given the Company's lack of profitability). Finally, the Company announced that it will hire a Chief Operating Office who we hope will make the Company profitable.

While these recent proposals represent some progress, the changes are mostly cosmetic. The proposals do not address the Company's lack of profitability and do not allow shareholders to own more than 10% of the Company's stock. Moreover, the Company's proposals neither address the excessive employee and executive compensation nor indicate how the Company can maximize profitability. We intend to move forward with our proposals and allow the shareholders to determine the future of the Company.

Gateway Industries, Inc. (OTC: GW A Y) (www.gatewayindustries.com) - Steel Partners II continues to own approximately 40% of Gateway with whom we have been actively involved since 1994.

On March 21, 2000, Gateway announced the acquisition of Oaktree Systems (www.oaktreesys.com). Oaktree provides database development, consolidation and management services, and web site design and maintenance to customers throughout the United States. After many unsuccessful attempts to create value for the shareholders and grow Oaktree, we made the difficult decision to replace the management team and start over again.

We brought in John Carroll as the new CEO of Oaktree in the fourth quarter of 2004; John continues to increase operational efficiency, grow sales and lead a major system upgrade. We intend to support his new business plan by investing additional capital. Although Gateway is a very small investment for our partnership (less than $2 million) we feel we can make money with the business and ultimately create significant value for everyone - we will keep you posted.

GenCorp Inc. (NYSE: GY) (www.gencorp.com) - Steel Partners II owns 7.27% of GenCorp We had been a patient shareholder in this conglomerate until two years ago when we recommended that the CEO consider divesting underperforming divisions in order to focus GenCorp on its core defense business (Aerojet) and the Company's vast real estate holdings outside of Sacramento.

Fortunately, they listened to our suggestions. Unfortunately, the Board felt that GenCorp was undercapitalized and announced a plan to issue new debt and equity in a public offering (when the share price was around $13). We were appalled that GenCorp wanted additional capital since they had not had an acceptable return on the capital they historically had invested. Our response was to make an offer to the board to acquire the entire company for $17 per share. We were ultimately turned down but our offer helped to draw investor attention to the Company and its undervalued assets.

In February we signed a one year standstill with GenCorp in return for board observation rights and the appointment of a new independent director with expertise in corporate governance. We still believe GenCorp is an interesting situation and will know much more once we are inside the tent.

Novoste Corporation (NASDAQ: NOVT) (www.novoste.com) - We currently own about 15% of the Company. Novoste has about $1.35 per share in cash (which is down from $2.50), no debt, a $100 million tax net operating loss carry forward, (the timing of the utilization of the carry forward is limited under Section 382 of the IRC), and a business that is being wound down. We were originally impressed with the management team but now recognize that we made a mistake in that assessment and believe they are doing a poor job of managing Novoste's assets. We misjudged the situation and as shareholders we are paying for that mistake. Fool me once shame on you. Fool me twice shame on me.

P&F Industries, Inc. (NASDAQ: PFINA) (www.pfina.com) - Steel Partners II currently owns over 9 % of P&F, purchased in the fourth quarter of 1993 at an average cost of $2.00 per share. P&F represents an excellent example of our long-term investment strategy; we have acquired, held and patiently watched the intrinsic value appreciate more than eight times over the past 11 years. Our initial analysis, conducted in 1993, indicated that the intrinsic value at that time was approximately $6.00 per share, or 3x our purchase price.

P&F had four divisions: (1) Florida Pneumatic Tools (2) Embassy Baseboard Heating, which includes Franklin Manufacturing, (3) Countrywide Hardware, which includes Nationwide Industries and (4) Green Manufacturing (recently sold). Fiscal 2004 was a great year for P&F, with over $100 million in revenues.

Florida Pneumatic had revenues of $45.05 million and operating income of $5.47 million. Embassy's sales were $10.81 million with an operating income of $230,000. Countrywide contributed $31.24 million in revenue and $5 .27 million in operating income. Green Manufacturing was recently sold for approximately $9.2 million due to its constantly poor return on capital.

The company has made several acquisitions and divestitures over the years and has grown organically to create shareholder value.

SL Industries, Inc. (Amex:SLI) (www.slindustries.com) - Steel Partners II currently owns approximately 25% of SL Industries. A majority of Steel nominees were elected to SL's Board in January 2002 and Glen Kassan and I become the senior corporate officers. At the time, SL's stock was trading at $8.20, had net debt of about $27.7 million, and had a bank loan due at the end of 2002.

We are pleased to report that as of December 31, 2004, after three years of emphasizing basic business principles like capital allocation and free cash flow, SL had cash, no net debt, and the stock was over $14 per share. During 2004, the Company repurchased 549,900 of its shares at an average price per share of $1 l.13 utilizing $6.076 million of its cash. Jim Taylor, who was the CEO of Teal, a SL division, became SL's Chief Operating Officer in early 2004, and most of the senior management of SL's current businesses have continued with the Company. My personal involvement with SL since 1992 has been particularly rewarding and fun.

United Industrial Corporation (NYSE: UIC) (www.unitedindustrial.com) - Steel Partners II owns approximately 12.8% of UIC. In October 2002, we began a more intense effort to maximize UIC's shareholder value. At that time, UIC had no debt, and was incurring significant negative cash flow from its non-core transportation operations. Additionally, the Board was "fractured" with no clear strategic plan for UIC. At the time, UIC stock was trading at $21 per share, (probably based on the expectation of a sale), and operating management was hampered by the company's lack of direction along with distractions caused by the asbestos claims being filed against one of the company's subsidiaries. In the summer of 2003, Steel "defeated" an effort by the other Board members to sell UIC at $18 per share. I became the Chairman in October 2003 and in September 2004; UIC issued $120 million of convertible securities priced at 3.75% with a $40 per share conversion price.

Today, UIC's stock is trading at about $30 per share, the company has over $25 million of net cash, and is generating a huge amount of free cash from its core defense business - UIC has closed and sold the transportation operations. Fred Strader, the former COO of UIC is now the CEO, and UIC is strengthening its management team to support future growth. Finally, the Company has repurchased its stock at an average price of $23 per share utilizing $40 million of its cash.

WebFinancial Corporation (NASDAQ: WEFN) - The Company recently completed a rights offering where Steel Partners II was able to increase its ownership to 68% of the Company.

The Company has cash and a net operating tax loss carryforward and, through a subsidiary, WebBank, operates a specialty finance company. Due to some regulatory issues, WebBank was required to sell its accounts receivable factoring portfolio in December 2004. WebBank is currently exploring various acquisitions to generate scale and most importantly value. WebBank is preparing a three year plan that will be submitted to the regulators in June 2005. This business plan will emphasize acquisitions of companies with proven management, sound banking polices and ability to operate in a regulated environment. WebBank's four product lines will be Accounts Receivable Factoring, Government Guarantee Loans, Asset Backed Loans and Fee for Service relationships. Please call us if you are aware of any attractive candidates.

Co-Investments Update

Steel Partners Japan Strategic Fund, L.P. -Steel Partners ll, L.P. invests in SPJSF

Steel Partners II, L.P. has 10% of its assets invested in Steel Partners Japan Strategic Fund, L.P.

As previously announced to our investors, Steel Partners, Ltd., acting as co-general partner with Liberty Square Asset Management and Steel Partners Japan K.K., opened the Steel Partners Japan Strategic Fund, L.P. ("SPJSF" or the "Fund") during April 2002.

Steel Partners Japan Strategic Fund's capital appreciated approximately **39.6%** for the twelve months ended December 31, 2004. After fees and 20% incentive allocation to the General Partner, the Limited Partners earned a **29.9%** return on investment.

For the three months ended March 31, 2005, Steel Partners Japan Strategic Fund capital appreciated by approximately **12.1 %**. After fees and **20%** incentive allocation to the General Partner, the Limited Partners earned a **9.5%** return on investment.

Investors who have been with Steel Partners Japan Strategic Fund from inception (April 2002 - March 2005) have received a total gross return of **106.28%**.

The Fund's focus on fundamentally sound companies, combined with an active approach to managing those positions should enable the Fund to achieve superior risk-adjusted returns over the long-term.

Numerous value opportunities continue to exist in the Japanese market and we are confident of our ability to identify new investment candidates and add to existing positions that are still attractively priced.

See Exhibit A- New Positions and Company Updates for SPJSF

Steel Systems, L.P. -Financial Institutions

Steel Systems, L.P.'s capital appreciated approximately 3.2% for the twelve months ended December 31, 2004, before the General Partner's profit allocation but after all fees and expenses.

The General Partner receives a profit allocation of 20% provided that the net profit preliminarily allocated to the Limited Partners is in excess of 5%. Because the Gross return for the year ended December 31, 2004 was less than that amount, the 20% profit allocation to the General Partner did not occur. Since inception (June 1998 - December 2004), after the 20% allocation to the General Partner, the Limited Partners have earned a total net return of 30.4% and a net compounded annual rate of return of 4.1 %. We continue to hold 65 policies with various insurance companies and continue to collect interest on our annuities and life insurance policies averaging around 5%. In addition, we have 24 accounts with various mutual thrift institutions that we believe will have a public offering in the near future. By having accounts at these institutions we get an embedded option to buy their stock in the event of a public offering. There is very little downside with meaningful upside due to the embedded options in both the annuities and the bank accounts. In addition, the fund invests in securities of various financial institutions. This fund has been closed to new investors since the initial investment by the limited partners in 1998.

Our Future

We believe the best way to reduce our risk of losing money and enhance our probability of making money is to bring all of our knowledge, experiences, and contacts together and apply them to a particular situation with complete FOCUS.

Steel Partners is not going to alter its approach to investing. We believe our approach is logical and prudent and one in which we understand the risks. We have no intention of investing in a concept that we don't fully understand, have not practiced or is out of our circle of competence.

Steel Partners' mission is to work with management to affect catalytic events or, if required, pursue an activist strategy to encourage management to implement such events. Such catalytic events may include the reduction of corporate overhead, share buyback programs, the declaration of a special dividend, divestitures of excess or underperforming assets, an acquisition, or an outright sale of the company.

Our network of investors, investment bankers, brokers, attorneys, accountants, mutual funds and other hedge funds are continuing to grow and strengthen.

Our future success will be affected not only by our ability to remain focused and disciplined but also by the type of investors we admit into our partnership. We continue to look for investors who share our values and our long-term investment orientation. We believe by having knowledgeable investors and deploying our capital with discipline, we will continue to earn above-average risk-adjusted returns on our investments over a long period of time.

We have invested most of our personal assets in Steel Partners II, and we intend to do so over the long run. We eat our own cooking and enjoy it!

Steel Partners has never taken its success for granted and never will. We are constantly looking for ways to reduce our risk, in order to preserve our capital and to achieve high risk-adjusted rates of return regardless of the economic environment.

We would like to thank our partners and investors for your continuing support, perspectives and advice. Your guidance and encouragement have been and will continue to be an invaluable resource for Steel Partners.

Respectfully,

Warren Lichtenstein

For additional information on Steel Partners II and our organization, please visit our website at www.steelpartners.com.

<u>Appendix A</u> - Steel Partners Japan Strategic Fund, L.P. - New Positions and Company Updates.

Good investment ideas are rare and valuable; therefore, Steel Partners Japan is continuing its policy of only discussing investments after the Fund owns 5% or more of a company and has filed a significant shareholder report with the Japanese Local Finance Bureau. Steel Partners Japan has a portfolio of approximately 40 investments, of which we own greater than 5% on fifteen companies.

NEW POSITIONS

Since our last update, new filings include the following 13 companies:

<u>Sapporo Holdings (Code 2501)</u>
The Company is the third largest beer company in Japan and is also involved in various other businesses of soft drinks, restaurants and real estate. The Company has EBITDA of $500 million on net revenues of $3.2 billion. We believe that this company trades at a significant discount to its intrinsic value as determined by a sum of the parts analysis. In November 2004, we had a supporting example of this when the Company announced the sale of one of its properties, The Westin Hotel in Tokyo, along with its management company to a Morgan Stanley related real estate fund for approximately $500 million. The Fund owns 9.0% of the shares issued and controls 10.2% in conjunction with related parties, which makes it the top shareholder in the Company.

<u>House Foods (Code 2810)</u>
The Company is the largest Japanese producer of spices, including curries. It is also a large branded food manufacturer. The Company is expanding in the U.S. in addition to the local manufacturing subsidiary it already has in California. The Company has EBITDA of $111 million on revenues of $1.8 billion. House has no debt and holds cash and investments of $1.1 billion, which is equal to 65% of its market capitalization. The Company currently trades at an enterprise value of 5x EBITDA. The Fund owns 4. 7% of the shares issued and controls 6.2% in conjunction with related parties, which makes it the second largest shareholder in the Company.

<u>Komatsu Seiren (Code 3580)</u>
The Company is a leading textiles dye processor and is expanding the offering of its own branded materials. The Company is on track to significantly increase revenues and profit and increase overseas sales of several new products. Komatsu currently has EBITDA of $24 million on annual revenues of $307 million. The Company has net cash and investments of $157 million, representing 57% of its market capitalization. Komatsu trades at an enterprise value of less than 5x EBITDA. SPJSF currently owns 7.3% of the shares issued, which makes it the top shareholder in the Company.

<u>Wacoal (Code 3591)</u>
The Company is the largest women's lingerie and underwear company in Japan with a strong brand name throughout Asia. Additionally, Wacoal has outerwear and children's wear as part of its product offering. Wacoal has EBITDA of $83 million on annual revenues of $1.6 billion.

The Company has net cash and investments of $836 million, which represents 49% of its market capitalization. The Company currently trades at an enterprise value of 10x EBITDA before valuing its real estate and brands. The Fund owns 5.4% of the shares outstanding and controls 7.4% in conjunction with related parties, which makes it the top shareholder in the Company.

Ishihara Chemical (Code 4462)
The Company is a leading manufacturer of surface treatment agents. It holds the largest Japanese market share of paint repairing compounds and has a 60% share of the tin soldering-plating solution market. The Company has EBITDA of $17.5 million on annual revenues of $153 million. Ishihara has net cash and investments of $66 million, which represents 39% of its equity market capitalization. The Company currently trades at an enterprise value of less than 6x EBITDA. The Fund owns 5.5% of the shares issued, which makes it the top shareholder in the Company.

Fujirebio (Code 4544)
The Company is a leading manufacturer of medical diagnostics and related equipment. Fujirebio has EBITDA of $83 million on annual revenues of $287 million. The Company has a net cash and investments position of $220 million, which represents 35% of its equity market capitalization. Fujirebio trades at an enterprise value of 5x EBITDA. In October 2004, Fujirebio announced the acquisition of the 66% it did not own of the diagnostic testing labs company SRL (with $1.1 billion in revenues) for $340 million in cash and stock. The strategy behind the acquisition is to create a vertically integrated diagnostics company, with cost saving synergies and a consolidated platform to leverage new opportunities. The acquisition is expected to be completed later this year. We intend to monitor the progress of this strategy closely. The Fund currently owns 7.1 % of the shares issued and is the second largest shareholder in the Company.

Maruichi Steel (Code 5463)
The Company is a leading producer of structural steel tubes and piping. The Company has EBITDA of $168 million on annual revenues of $905 million. Following global industry conditions, the Company is enjoying increased demand for its steel products. The Company has net cash and investments of $1.2 billion, which represents 58% of its equity market capitalization. Maruichi trades at an enterprise value of 5x EBITDA. The Fund owns 5.9% of the shares issued and controls 6.4% in conjunction with related parties, which makes it the top shareholder in the Company.

Noritz (Code 5943)
The Company is a leading manufacturer of gas water heaters and also produces bath and kitchen systems. Noritz has EBITDA of $126 million on annual revenues of $1.6 billion. The Company has almost no debt and cash and investments of $450 million, which represents 53% of its equity market capitalization. The Company trades at an enterprise value of 3x EBITDA. The Fund owns 7.8% of the shares issued of this company, which makes it the second largest shareholder in the company next to the Japan Trustee Services Bank.

Denki Kogyo (Code 6706)
The Company is a manufacturer of large telecommunications antennas. Denki Kogyo has EBITDA of $43 million on annual revenues of $427 million. The Company has net cash and

investments of $170 million, which represents approximately 44% of its equity market capitalization. Denki Kogyo currently trades at an enterprise value of 5x EBITDA. The fund owns 9.9% of the shares issued, which makes it the top shareholder in the Company.

New Cosmos Electric (Code 6824)
The Company is a leading producer of gas warning devices for home use, with a 40% market share. New Cosmos has EBITDA of $17 million on annual revenues of $146 million. The Company has no debt and $85 million in cash and investments, which represent 46% of its equity market capitalization. New Cosmos trades at an enterprise value of 6x EBITDA. The Fund owns 6.4% of the shares issued, which makes it the largest shareholder in the Company.

Fukuda Denshi (Code 6960)
The Company is a manufacturer of electro cardiographs (with the largest Japanese market share) and other medical equipment. The Company has EBITDA of $110 million on annual revenues of $703 million. The Company has net cash and investments of $270 million, which represents approximately 37% of its equity market capitalization. Fukuda Denshi currently trades at an enterprise value of 4x EBITDA. The Fund owns 7.8% of the shares issued, which makes it the third largest shareholder in the company behind Atomic Sangyo and Tokyo Enterprise; both entities are related to the founder family shareholder.

MOS Foods (Code 8153)
The Company is a fast food hamburger chain operator with a well known brand in Japan and expanding in overseas markets such as Taiwan. The Company has EBITDA of $41 million on annual revenues of $456 million. The Company has net cash and investments of $173 million, which represents approximately 36% of its equity market capitalization. MOS now trades at an enterprise value of 7.6x EBITDA. The Fund owns 6.7% of the shares issued which makes it the second largest shareholder in the Company.

Aderans (Code 8170)
The Company is the largest manufacturer of men's and women's wigs in Japan. It also offers hair transplant services via an acquired subsidiary based in the U.S. The Company has EBITDA of $117 million on annual revenues of $692 million. The Company has no debt cash and investments of $274 million, which represents approximately 28% of its equity market capitalization. Aderans now trades at an enterprise value of 6x EBITDA. The Fund owns 6. 1 % of the shares issued, which makes it the fourth largest shareholder in the Company.

COMPANY UPDATES

From the time of our last update note, we sold our holding in the following previously filed company:

Teikoku Hormone (Code 4514)
Teikoku is a specialty pharmaceutical company with primarily hormonal and intestinal medicines. It is branching out into generic medicines as well. The Company has an EBITDA of $18 million on annual revenues of $203 million. The Fund acquired 5 .5% of the shares from May 2002 through February 2004, to become the top shareholder in the Company prior to our

sale. Our team had numerous meetings with management to review the Company's results and prospects.

In September 2004, a US investment fund, citing long-term prospects for the Company, made a buyout proposal to management at ¥1,200 per share. The increased trading volume following the buyout proposal allowed the Fund to exit its investment through the market at an attractive price. Our total return on this investment was 60%. Ultimately, the Company rejected the acquisition proposal and entered into an agreement to acquire smaller closely held Grelan Pharmaceuticals in a share exchange. Today, Teikoku's shares are selling for approximately ¥1,100 per share.

Appendix B

A Work In Progress -April 15, 2005

Investment Philosophy and Strategy-Active Value investors

We have always invested on the basis of value, not popularity. We try to buy at a discount to intrinsic or private market value and demand that there be a **margin of safety** to protect us against the risk of losing our capital. We utilize meticulous research and perform due diligence as though we are buying the entire company, not just a few shares. As a matter of fact, we believe that our investment strategy is unique and that our downside is protected by having the ability to purchase an entire company at prices below public equity and private equity multiples. Simultaneously, we have liquidity and the ability to sell if "Mr. Market" ultimately places too high a valuation on a particular company.

We have been able to earn a respectable rate of return on our invested capital by remaining disciplined and adhering to our strategy of investing in undervalued companies. We employ a bottom-up approach to investing and never speculate in derivative securities.

Our investment criteria are stringent. We will look at any type of investment in any given industry, provided we think we can add value and make a profit. However, we do no high-tech or biotech investing. We search for companies that we can purchase at low multiples of cash, cash flow, real estate asset value and/or break-up value. Usually, we look for companies that have operating leverage, are scaleable, and are selling a product or offering a service to a customer-base whose industry is growing. We do not have a magic formula or black box; we simply focus on low-tech companies that we can easily understand.

Our never-ending search for good ideas forces us to look at hundreds of companies a year. The vast majority of these are quickly discarded because they do not meet our investment parameters. Other companies receive much greater scrutiny, and within this select group we find a few in which to invest. We believe that we are better off knowing a great deal about a relatively short list of companies than a small amount about a diverse number of companies.

We would never buy a company when it is trading at 20 times PIE just because its industry peers are trading at 30 times PIE. We have adhered to our "blocking and tackling" style of investing in easy-to-understand businesses and situations that have a built-in margin of safety. We look for companies in industries and sectors that are out of favor, as well as conglomerates where the parts are worth more than the whole; cash at a discount and tax-loss carry-forwards; and companies in industries that are or will become consolidated (roll-ups), like defense, medical imaging, internet service providers, and healthcare linen management.

In all instances, we try to cultivate a professional relationship with the management of these companies. We attempt to work with a company's management and board in order to develop and implement a long-term strategy to increase the value of our investment. We may serve on the board of a company where we have an investment and can make a difference, and at times we actually manage and operate the businesses.

We have found opportunities to provide companies that have good management and businesses with additional long-term capital through private placements in the form of debt and convertible instruments with equity. Private placements provide the downside protection we look for without taking away the upside potential, and allow us to work closely with managers where we can increase the value of our investments. Private placement opportunities come from a variety of sources, including our relationship with investment bankers, business managers, commercial bankers, brokers, our investors, as well as the companies we follow.

We are not passive investors. In the event the management of a company in which we have invested undertakes an action that we believe is against the best interests of its shareholders, we proceed as we deem necessary, including asserting our rights as owners of the corporation and communicating our views with our fellow shareholders.

The investments we have made are divided between passive investments (companies with managers who are also shareholders of the Company or at least who think like owners) and investments in which Steel Partners plays an active role. When a security is trading at a discount to its private market value, there is usually a reason. We believe we are better served by becoming active shareholders and influencing a situation in which a good asset is coupled with bad management, rather than investing merely because a security is selling at a discount to its intrinsic value with no apparent means of closing the value gap. In these situations, we do not believe in passively sitting by and hoping that the gap between intrinsic value and market price will close on its own accord.

Our style of investing involves an enormous amount of time, energy, and most importantly ... **FOCUS**. For this reason, we have made the decision to have a <u>concentrated portfolio</u>.

Fluctuations in the stock market or a market correction may reduce the market value of our holdings. However, if there were no material adverse changes in the business of any of the companies in our portfolio, we would view this market correction as an opportunity to purchase additional securities at more attractive prices. Conversely, if unforeseen events increase the value of our holdings to an unrealistic level, we may decide to sell.

Because we are long-term investors, we are not alarmed by the negative psychology or volatility of the market. As long-term investors, we focus on our trading practices in a tax-efficient manner. We have a private equity style with public market liquidity. We call it private equity in drag.

Our success in 2005 and beyond will be affected not only by our ability to remain focused and disciplined, but also by the type of investors we admit into our partnership. We continue to look for investors who understand what we do and who share our <u>long-term investment orientation</u>. We believe by having knowledgeable investors and deploying our capital with discipline, we can earn above-average risk-adjusted returns on our investments over a long period of time.

We continue to have most of our personal assets invested in Steel Partners and intend to do so over the long run. **We eat our own cooking and enjoy it!**

We have been approached by several investors looking to entrust significant amounts of capital to a firm that would generate 1-2 percent a month with no volatility or market correlation, with specific alpha and beta statistics and with an extensive short component. Most of these investors had little or no concern for the tax efficiency of the investment strategy. They should not be looking at Steel Partners.

Some investors equate volatility (Beta) with risk and continue to be influenced by the Alpha and the Beta of various strategies and securities and ignore the fundamentals of investing, such as a company's business model, strategic objectives, products, market strength and management, all of which are essential to valuing a business in the real world. While these variables are subjective and imprecise, they are the substance that value investors look at every day in order to assess a business' intrinsic value.

Steel Partners believes that volatility or Beta creates opportunities to purchase securities at substantial discounts to realizable value and thus it reduces the risk of capital loss and creates a margin of safety. We would rather see a stock at $10 fall to $5 and load up the shopping basket than to see it remain at $10 for an extended period of time if it is worth $20. We love fire sales.

Value investors, like Steel Partners, spend their careers looking for discrepancies between market price and intrinsic value. We do not pay attention to whether stocks or bonds did better in March or May, or in odd years or even years. We are not market timers. Someone once told me that the annual movement for the stock market occurs during 12 specific days in a year. We are not smart enough to pick the 12 days, and so far, not that lucky. If anyone knows the exact dates of these movements please call us and let us know.

Again, we are value investors and invest on the basis of value, not popularity. We adhere to a strict price-value discipline and look at all layers of the capital structure to determine where we can create high returns on our capital with very little risk. We are in the business of finding undervalued situations and capitalizing on the inefficiencies that arise in the markets by purchasing securities (senior or subordinated debt, mezzanine Securities and preferred and/or common) that we believe are selling below their intrinsic value and by subsequently selling these investments when we believe prices are too high or are forced to sell due to a buyout or a merger.

Since, most private equity firms will stay away from buying debt or equity unless it is in a negotiated transaction to buy the whole company (usually at a premium price) we believe we have a competitive advantage. We are opportunistic and flexible. Additionally, many commercial banks sell underperforming loans at a discount in order to clean up their portfolio and many find themselves holding equity positions following reorganization. Since banks typically do not want to hold equity investments, they tend to sell such interests. We stand waiting with open arms for these opportunities.

We view ourselves as business analysts, not market analysts.

Our strategy is to stick to the basics, remain focused on basic investment principles (which we employ to preserve and build our capital) and to keep things simple. We intend to continue to focus on fundamentals, use common sense when making business decisions and to be patient. We have been very successful in identifying under performing securities, businesses and assets.

But as we have said, identifying undervalued companies is only half the battle. Value managers are constantly frustrated because value stocks remain cheap unless there is a catalyst to unlock the value. Steel Partners believes a passive approach to investing in this sector will not yield above average returns. Rather, an activist approach is required regardless of where we invest in the capital structure. We believe the combination of investing in undervalued, neglected companies with an activist shareholder approach will, over the long-term, yield superior returns for patient investors.

We continue to demonstrate the necessary skills to be an effective activist shareholder (when necessary).

Steel Partners is not going to alter its approach to investing. We believe our approach is logical, prudent and scalable and one in which we understand the risks. We have no intention of investing in a concept that we do not fully understand, have not practiced, or is out of our circle of competence in order to satisfy interested investors (even really big ones).

We have learned that it is better to pay a fair price for a good business than a cut-rate price for a poor business or assets. A cheap business (which is often cheap for a reason) may turn out to be no bargain at all. Price is what you pay, value is what you get. It is very important to buy right.

Investment Philosophy & Strategic Outlook

We invest on the basis of value, not popularity. We are in the business of finding undervalued situations and capitalizing on the inefficiencies that arise in the markets by purchasing securities (senior or subordinated debt, mezzanine securities and preferred and/or common stock) that we believe are selling below their intrinsic value and by selling these investments when we believe prices are too high or we are “forced to sell” due to a buyout or a merger. Value investors like Steel Partners spend their careers looking for discrepancies between market price and intrinsic value. We do not invest based on whether stocks or bonds did better in March or May or which team won the Super Bowl. We are not market timers.

Steel Partners II’s mission is to work with managements to affect catalytic events or, if required, pursue an active strategy to encourage management to implement such catalytic events. The catalytic events may include the reduction of corporate overhead, share buyback programs, the payment of a special dividend, divestitures of excess or underperforming assets, an acquisition, or an outright sale of the company.

We have adhered to our “blocking and tackling” style of investing in easy-to-understand businesses and situations that have a built-in margin of safety. We view ourselves as business analysts, not market analysts. We believe that “Prior Proper Planning” will “Prevent Poor Performance.” Our strategy is to remain focused on basic investment principles (which we employ to preserve and build our capital) and to keep things simple. We intend to continue to focus on fundamentals (such as undervalued assets, free cash flow, and return on capital) and use common sense when making business decisions. We are patient. We have been very successful in identifying undervalued securities (and sometimes businesses and assets) and then figuring out how to unlock those hidden values.

As we have also previously discussed, identifying undervalued securities, businesses or assets is only half the battle. Value managers are constantly frustrated because value stocks remain cheap unless there is a catalytic event to unlock the value. Steel Partners II believes a passive approach to investing in this sector will not yield above average returns. Rather, an activist approach is required regardless of where we invest in the capital structure. We believe the combination of investing in undervalued, neglected small-cap companies with an activist shareholder approach will, over the long-term, yield superior returns for patient investors.

Steel Partners II has no plans to alter its approach to investing. We believe our approach is logical and prudent and one with respect to which we understand the risks. We have no intention of investing in a concept that we don't fully understand, have not practiced or is out of our circle of competence. <u>We know what we don't know.</u> We are owners and, at times, managers of businesses and although we clearly have the ability to do both, we prefer the former to the latter.