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May 10, 2006

Dear Limited Partners:

Performance For the Year Ended 2005 and Four Months Ended April 2006

Steel Partners II, L.P.'s capital appreciated approximately 0.23% for the twelve months ended December 31, 2005, 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 0.18% return on investment.

For the four months ended April 30, 2006, Steel Partners II's capital appreciated by approximately 14.43%, before the General Partners profit allocation but after all fees and expenses. After the 20% allocation to the General Partner, the Limited Partners earned an 11.51% return.

Our results during 2005 were negatively impacted by three investments, Foamex, Rotech, and Angelica. Since the end of 2005 both Angelica and Foamex have rebounded and Rotech continues to be a work in progress. (Please see the Company Update Section for a full briefing.)

Investors who have been with us from inception (October 1993 - April 2006) have received a total gross return of 1545% and a gross compounded annual rate of return of 24.30%. 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	0.23%	0.18%
2006 - YTD April 30th	14.43%	11.51%

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.

THINK GLOBAL – ACT LOCAL

Our never ending search for good ideas forces us to explore the world (including uncharted territories) and be adventurous in order to find undervalued businesses and investment opportunities. Today, many opportunities exist outside of the United States, which are large and underexploited, and where we think we can buy interesting businesses at attractive prices. We "boldly go where no partnership has gone before" and so far we are satisfied with our results.

Over time, we have learned a great deal about foreign business practices, customs, cultures, governments' roles, and local laws. Today, we feel more comfortable working with people of various cultures around the world than we did when we first began Steel Partners in 1990. At that time, reaching past our local horizons may have meant drinking a whiskey sour with partners in Tulsa, Oklahoma. Today, we are just as happy to share a sake, a sherry, a whiskey or a beer with our foreign associates across the globe. We continue to expand our knowledge and broaden our horizons.

But finding attractively priced investment opportunities is not enough. We need to work within the local cultures, customs, rules and regulations to figure out how we can add value and close the value gaps thereby creating value for all the stakeholders.

We have concluded that in order for us to be successful we need to have a strong local presence with smart local partners who have their interests fully aligned with ours. To date, we have set up two joint ventures. In Japan, we partnered with Nishi-san and Kuroda-san and Liberty Square Asset Management to form Steel Partners Japan Strategic Fund. In 2005 we launched our second joint venture in China alongside China Access Partners Limited. The fund is called Steel Partners China Access I, LP. In both instances Steel Partners II – the mother ship – has been the lead investor and does not pay fees.

No matter where we invest geographically, our ultimate strategy is to be a long-term, active value investor. (I continue to change the definition of "long" as I get older and hopefully wiser.) Our goal is to own a business, or a piece of a business, where, as responsible owners we will work with companies to increase their value over an extended period of time.

We believe that by investing our money, time, and energy – our "human capital" – we can educate, influence, and work constructively with people and companies around the globe. Promoting and encouraging change enables us to protect and increase the value of the companies we own. While searching for undiscovered or neglected areas, we are unconventional and flexible in our thinking. We want to make investments where we have significant upside potential and downside protection. We never forget the concept of margin of safety.

We are always mindful that global differences are real. We have learned that styles, methodologies and philosophies that work in Europe do not necessarily work in Japan, Korea or China. The temperament and timing one has in one location (like the United States) may not render one successful in other parts of the world; we are aware of the differences and act accordingly.

It will be extremely interesting to see if the large cross border transactions which are currently taking place (M&A activity is at an all-time high) are successful in the coming years. We think that it is extremely difficult to integrate different ideologies and cultures especially at a time when nationalist sentiment is extremely high. Xenophobia is alive and well and difficult choices to achieve cost savings will have to be made and implemented, which is certain to make people uncomfortable and create tension within these newly merged organizations. To get a sense of just how nationalistic various countries are at the moment just think about what is happening in France, Korea, Russia, and even in the United States (think ports and oil). Nevertheless, we think we have what it takes to be successful due to our experience, flexibility, sensitivity, and know how.

We continue to learn every day as we strengthen our investment acumen in Europe, Asia, and the rest of the world with the help of Luke, Oliver, Joonho and the rest of the Steel Partners team, all of whom have extensive knowledge and experience and focus on their respective local markets.

INVESTMENT PHILOSOPHY & STRATEGIC OUTLOOK

Steel Partners II invests 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. We purchase securities (senior or subordinated debt, mezzanine securities and preferred and/or common stock) that we believe are selling below their intrinsic value and sell these investments when we believe prices are too high or when we are "forced to sell" due to a buyout or a merger. Value investors like Steel Partners II 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 repurchase programs, the payment of a special dividend, divestitures of excess or underperforming assets, an acquisition, or an outright sale of the company.

We adhere to our "blocking and tackling" style of investing in easy-to-understand businesses and situations that have built-in margins of safety. We view ourselves as business analysts, not market analysts and we believe that with "Prior Proper Planning" we 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 have been extremely successful in identifying undervalued securities (and sometimes businesses and assets) and then figuring out how to unlock these hidden values. However, as previously discussed, identifying undervalued securities, businesses or assets are only half the battle. Value managers are constantly frustrated because value stocks generally remain cheap unless there is a catalytic event to unlock the value. Steel Partners II believes a passive approach to investing 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.

Steel Partners II has no plans to alter its approach to investing. We believe our approach is logical and prudent. We understand the risks and 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. 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.

Private Equity in Drag and Relationship Investing

Steel Partners II does not fit exactly into most institutional investors' asset allocation models because we are a private investment partnership. We are not a hedge fund (as defined by most) or a private equity firm. Therefore, we have taken the liberty of labeling our style of investing, "Private Equity in Drag." We believe our business model works because it allows us to be flexible and opportunistic. Private equity firms typically have to buy 100 percent of a company in a negotiated transaction (after an auction process with 15 other private equity firms) and pay a control premium. This is not for us! There is currently around $600 billion in buying power on the sidelines, and we are certain this money will be invested at prices which Steel Partners would not be willing to pay. We would rather be called frugal or thrifty than overpay.

We continue to build relationships with private equity firms and strategic buyers so that we can facilitate transactions for the non-core businesses and assets of our portfolio companies. In certain instances we may also arrange for the outright sale of entire companies just like old-fashioned merchant banks as we have done in the past.

We will remain focused on building meaningful positions in good businesses at attractive prices. We intend to continue working constructively with the managements and boards of our portfolio companies to reduce the discount between the public trading price and intrinsic value, increase sales, earnings, ROIC and grow the overall businesses.

Even though we do not always secure 100% control, we continue to prove our ability to directly influence the boards and managements of the companies in which we invest.

The Rules of the Game are different throughout the world - Know Your Rights!!!!!!!!!

As an investor, Steel Partners believes all investors should do what is needed to maximize returns, minimize risk and preserve our capital. Unfortunately, most investors forget that along with the economics of owning a share of stock is the ability to vote that share. We have seen far too many institutions and individual investors quietly watch the value of their investments erode while the members of a board and the managements they support siphon off the shareholders' assets and run their company into the ground. We hope that our fellow owners will continue to change their behavior, to stand up and act like responsible owners.

As shareholders of a corporation, we have the ability to nominate and elect a board of directors to oversee its affairs. The board then chooses a management team and empowers them to execute a business plan. The management team is then held accountable by the board, and the board by its shareholders. This is what investing + corporate governance is all about. Responsible owners understand that all will be better off when more people embrace these concepts and adopt responsible corporate governance policies. It will definitely make our job easier. Although process is important, boards and managements should not get caught up in a process that wastes time and resources if it can be avoided. We are much more focused on results than process.

NEW POSITIONS AND COMPANY UPDATES

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

Good investment ideas are rare and valuable; therefore, Steel Partners II, L.P. is continuing its policy of only discussing specific investments after Steel Partners II, L.P. 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 discuss 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 24 companies (including 18 in which we own over 15%) and among these we are the largest shareholder in 17 companies. Additionally, we have approximately 8.2% of our assets invested in the Steel Partners Japan Strategic Fund and have committed $100 million to the Steel Partners China Access Fund.

Steel Partners currently owns 5% or more in:

Angelica Corporation (NYSE: AGL), API Group PLC (API - LN) a U.K. company, Bairnco Corporation (NYSE: BZ), BKF Capital Group, Inc. (NYSE: BKF), BNS Co. (OTC: BNSXA), Brink's Company (NYSE:BCO), Cherokee International Corporation (NASDAQ:CHRK), Continental Materials Corporation (ASE: CUO), Cosine Communications Inc. (OTC:COSN), Crones Group (NASDAQNM: CRNS), Del Global Technologies Corp. (OTC: DGTC), Delta PLC (DL TA - LN) a U.K. company, Earthlink Network Inc. (NASDAQ:ELNK), ENPRO Industries Inc. (NYSE: NPO), Gateway Industries, Inc. (OTC: GWAY), GenCorp Inc. (NYSE: GY), IKON Office Solutions Inc (NYSE: IKN), JPS Industries (OTC: JPST), Lavendon Group plc (LVD-LN) a U.K. company, Layne Christensen Co. (NASDAQNM: LA YN), Nathan's Famous (NASDAQ: NATH), Nettec PLC (NTC - LN) a U.K. company, New Frontier Media Inc. (NASDAQ:NOOF), NOVT Corporation (PINK: NOVT), P&F Industries, Inc. (NASDAQ: PFIN), Renold PLC (RNO-LN) a U.K. company, Ronson Corporation (OTC:RONC), Rotech Healthcare Inc. (NASDAQ: ROHI), SL Industries, Inc. (Amex: SLI), Strategic Distribution, Inc. (NASDAQ: STRD), Stratos Lightwave Inc. (NASDAQ:STLW), Uniq PLC (UNIQ-LN) a U.K. company, United Industrial Corporation (NYSE: UIC), WebFinancial Corporation (NASDAQ: WEFN), and WHX Corporation (OTC:WXCP).

NEW POSITIONS

Fox & Hound Restaurant Group (www.fhrg.com) A Private Company - During the first quarter of 2006, Steel Partners 11, L.P. and Newcastle Partners, L.P. entered into a definitive agreement to acquire 100 % of the Fox & Hound Restaurant Group for approximately $161.8 million, or $16.30 per share. The valuation reflects an EV /EBITDA multiple of 6. 7x based on LTM run rate or 6.4x based on FY2006 projections. This is the second public to private transaction since our inception and one that we are very excited about because of the business and the management team.

Fox & Hound, based in Wichita, Kansas, operates and owns 59 Fox & Hound and 18 Bailey's restaurants, which are located in 22 states. The Company's restaurants are upscale, focusing on entertainment and high quality food as well as offering multiple billiard tables and state of the art audio and visual systems for viewing sporting events, etc.

Fortunately for us, the market was not properly valuing the shares of Fox & Hound, which has a very strong management team, operating cash flow, and brand. So, with Newcastle, we successfully took the Company private with the management team. The management team, led by

Steve Johnson, the CEO, will now be able to focus their time and energy on profitably growing the business without the distractions of being a small public company.

We encourage each of you to visit one of our locations if you have never been. It's quite a treat.

KT&G (KS:033780) (www.ktng.com) - Steel Partners II owns approximately 2.5% of KT&G, an $8.6 billion market cap company, formerly known as Korea Tobacco & Ginseng, which is the largest manufacturer of cigarettes and red ginseng in South Korea.

Despite its name, KT&G is a conglomerate. We believe the sum of the parts are worth more than the whole and that its capital structure is incorrect given the stable cash flows of the businesses.

In addition to KT &G's two primary businesses, the Company owns over 700 million square feet of real estate throughout South Korea, 57% of Yungjin Pharmaceutical (KS: 003520), 43% of Buy The Way (the 5th largest convenience store chain in South Korea) and 20% of YTN (KS: 040300), a cable news broadcaster. The Company has no debt and over $500 million of cash and securities. For 2006, the Company projects that the tobacco business along with some sales of real estate will generate sales of $2.4 billion and EBITDA of $850 million. Additionally, the Company is forecasting that Korea Ginseng will generate sales of approximately $350 million and operating income of $104 million.

Founded by the Korean government in 1899, KT&G was owned by the government for over 100 years until it was privatized through an initial public offering of 100% of its shares in 2002. Today, foreigners own over 60% of the outstanding shares.

We first acquired KT&G shares in 2005 believing that the sum of the parts of the Company was worth more than its market capitalization. As we continued our due diligence, our conviction grew and so did our investment. Our analysis suggested that the Company could significantly increase its value if it would do the following:

1. Spin-off the ginseng business to shareholders;
2. Spin-off the real estate assets into a tax efficient REIT;
3. Issue $1.7 billion of debt (approximately 2x leverage) and use the proceeds to repurchase and cancel as many shares as possible;
4. Cancel the maximum amount of treasury shares; and
5. Sell the other non-core businesses.

In January 2006, Steel Partners II, fanned the KT&G Full Value Committee along with entities managed by Carl Icahn, with the purpose of nominating three directors to the KT&G Board of Directors. Along with me, our two nominees were: Howard Lorber, CEO of Nathan's Famous and Vector Group and Steve Wolosky, a successful attorney specializing in corporate governance issues. Although we were only running for three of 12 board seats, we believed that if successful, we would help educate and persuade other KT&G board members that our ideas are sound and will translate into significant value for all stakeholders of KT&G. In fact, Institutional Shareholders Services and Glass Lewis & Co, two highly respected proxy advisory firms, recommended that their clients vote for our nominees.

After flying to Korea to meet CEO Kwak and his management team we were told by the CEO that if we did not like the way management and the board ran KT&G, we were free to sell our shares.

After reflecting on our meeting and his comments, we respectfully declined to sell our undervalued shares. Instead, we decided to press on exercising our right as owners of the corporation and trying to get representation on the board.

Unfortunately, after we submitted our nomination letter, the Company announced that instead of having shareholders elect six outside directors (of which we were seeking three) the shareholders could elect 4 audit committee members and only two outside directors. Therefore, due to cumulative voting, even if 100% of the shareholders wanted all three of our nominees on the board, only two would be able to serve. Left with no other choice, we filed an injunction to prevent the disenfranchisement of all shareholders. A Korean court found merit in our arguments, but ruled that the Company had not done anything wrong. The Court recognized inconsistencies in Korean laws with respect to this matter and said that the Korean legislature must rectify the inconsistency.

Other measures the Company took to disenfranchise shareholders included shortening the time period for foreign shareholders to vote for directors at the annual meeting (KT&G was the only Korean company to do this) and threatening to sell its treasury shares representing over 9% of the company to "friendly" Korean banks.

Despite the Company's efforts, on March 17, 2006, I was elected to the Board of Directors. (Based on the final tabulation of votes cast at the annual meeting, had the Company allowed shareholders to vote for all six directors using cumulative voting, all three of our nominees would have been elected.)

As you know, I will not be a passive director at KT&G. I intend to work hard to prevent the Company from selling its treasury shares and will work to help KT&G maximize shareholder value for all its stakeholders. I hope that logic will prevail, I will keep you all posted. Our first board meeting was on April 19, 2006. It lasted almost five times longer than the normal 30 minutes. It was very lively, and I think we are making progress. Since the board meeting, the company announced the sale of its interest in By The Way for $43 million and the hiring of Booz-Allen to explore ways to maximize value.

London Scottish (LSB LN) (www.london-scottish.com) - Steel Partners II owns 4.4% of London Scottish Bank pie., a financial services conglomerate with a number of businesses in sub-prime consumer and commercial lending and a debt collection business involved in both contingent and purchase debt.

We purchased our interest in London Scottish at under eight times 2004 earnings and believe, over time, the company can generate net income in excess of 2004 levels from its core businesses. If the company can release capital from selling or running off its less attractive businesses and sell surplus real estate we believe we are creating the core businesses at a significant discount to intrinsic value.

On April 10, 2006, Promethean Investments announced it had approached the board of London Scottish indicating it may be interested in making a cash offer of 115p per share, which represents a 40% premium to our cost. On May 2, 2006 LSB announced 'that it has now received a revised and increased conditional proposal from Promethean Investments. On the basis of that proposal, the board of LSB has decided to grant reasonable diligence access to Promethean.'

Photo-Me (PHTM LN) (www.photo-me.co.uk) - Steel Partners II owns 4.9% of Photo-Me International pie. The company has two businesses: vending and manufacturing photographic printing equipment. At the current stock price the market value is £355 million, the company has virtually no debt and earned £59 million in EBITDA in the year to April 2005.

Its vending division operates ID photo booths, digital photo kiosks and kiddie rides. This business has stable, recurring revenues and market shares of between 50% and 85% in its core markets of France, UK and Japan.

Its manufacturing division produces wholesale photo labs used by industrial scale photo processors and digital minilabs used mostly by retailers to do in-store photo printing. The wholesale labs business has a near 100% market share following the acquisition of part of Agfa in December 2005. The prospects for this business are good with growing volumes and expanding margins. The digital minilab business has been difficult but the market structure has improved with Konica and Kodak leaving the business. Photo-Me now has a competitive product and has won business from some of the most demanding customers such as Tesco and CVS. We believe as the minilab market recovers Photo-Me will take a larger share.

COMPANY UPDATES

Angelica Corporation (NYSE: AGL) (www.angelica.com) - Steel Partners II now owns approximately 19.9% and has owned part of the business since 2002. For the last few months we attempted to work with Angelica and place two Steel nominees on the board. So far we have been unsuccessful in reaching an agreement. We believe that the company can use our help improving operations and corporate governance.

Baby Phat (Private - BP Clothing) (www.babyphat.com) - BP Clothing, or Baby Phat, is a designer and wholesaler of women's urban clothing and is one of the premiere female hip-hop brands. Along with management, we purchased the license to design Baby Phat clothing from Phat Farm in December 2003. In June 2005, Baby Phat completed a $10 million refinancing of the Company and made a distribution to shareholders so that we recovered 130% of our original investment. The Company has continued to prosper under the leadership of Steven Feiner, Kathy Martus and Scott London.

In January 2006, we were approached by a few financial institutions that wished to acquire Baby Phat. Today, we are pleased to announce that we signed a letter of intent to sell the Company to a large financial institution at a $160 million valuation. As part of the sale, we have an earn-out provision that will allow us to generate further consideration if the Company meets certain performance requirements. Together with Baby Phat managers we will retain a minority ownership position in the Company going forward.

Brinks Co. (NYSE:BCO) (www.brinkscompany.com) - Steel Partners owns about 7.8% of Brinks. We began buying the stock in late 2004, when the company owned 3 different businesses: Brinks, which is their traditional armored car business, Brinks Home Security, which is a residential and small business security business, and BAX, a delivery and logistics company. At the time of our investment Brinks had a strong balance sheet and was very profitable. However, it was our opinion that to maximize value, the Company needed to sell the BAX business, and use the cash to repurchase stock, pay down debt, and grow its core businesses. Fortunately, the management and board agreed with us and in December 2005, the Company announced a definitive transaction to sell BAX for $1.1 billion dollars. With the proceeds, Brinks paid down debt, funded some legacy liabilities, and completed a $530 million stock repurchase in the form of a "Dutch auction" selftender offer. The Company is now focused on its two security businesses. Even after deploying a large portion of the cash proceeds from the sale of BAX, we believe Brinks has a healthy balance sheet and remains a solid investment opportunity.

Foamex Corporation (NASDAQ: FMXIQ) (www.foamex.com) - In our last letter, we described how we worked with Foamex over the summer trying to come up with a recapitalization plan that could keep it out of bankruptcy. We were unsuccessful and the Company filed chapter 11 on September 19, 2005, creating a large mark to market loss for our portfolio in 2005. Once the filing occurred, it was our hope that the Company would stay in bankruptcy as long as possible so it could return to its normal earnings power, generate free cash flow to pay down debt senior to ours, and rationalize the business to make it more profitable. We are pleased to report this plan is working.

Steel is now a member of the unsecured creditors committee for Foamex. The Company has done remarkably well since filing Chapter 11 with year-to-date 2006 EBITDA of $28 million (2 months) and trailing 12 month EBITDA of $106.2 million (Foamex has revised upwards six times since July). The bonds have increased from $5 at year-end 2005 to $95 today. We are encouraged by the dramatic improvement in EBITDA and cash flow and hope that the professionals will soon be done sucking their fees out of Foamex so that we can move on with reorganizing and running the company for the benefit of the stakeholders.

Nettec (NTC LN) (www.nettec.co.uk) - Steel Partners II owns approximately 22% of Nettec pk., a shell company listed in London with more than £ 10 million of cash. We acquired our interest in this company at an approximate 15% discount to the value. Luke Wiseman joined the board in 2005. In April 2006 Nettec announced it is in discussions to acquire the Newfound Group of companies. If successful, this purchase will result in the reverse takeover of Nettec. In accordance with the AIM rules, the shares of Nettec have been suspended until it publishes an admission document in respect of the enlarged entity. At this stage, we are not able to give more detail on the proposed transaction.

NOVT Corporation (PINK: NOVT) (www.novoste.com) - Steel now owns 19.9% of NOVT, a failed medical products company. Recently, Steel worked with the incumbent board to restructure the board and now have two of four board seats; John Quicke and Jack Howard represent Steel. The Company has sold all of its businesses and now has around $8 million of cash, a note receivable of $3 million, and approximately $55 million of NOL's. The new board's mandate is to find a profitable acquisition. If you know of any, please call Jack Howard or me.

Rotech Healthcare Inc. (NASDAQ: ROHi) (www.rotech.com) - Rotech is the third largest distributor of oxygen and drugs for chronic pulmonary obstructive diseases. When we began acquiring shares of Rotech a few years ago, the Company had just emerged from bankruptcy and was poorly managed. We believed the Company had the ability to generate EBITDA of close to $200 million. Led by CEO Phil Carter, the Company became much more efficient and was on pace to meet our initial expectations and possibly exceed them.

Unfortunately, the Company was negatively impacted by Medicare reimbursement rates for drugs and oxygen that became effective in early 2005. At the time, the Company's EBITDA runrate was close to $190 million, but was clipped to $125 million sending the Company's stock price down to $15 from $25 in 2005.

In April 2006, the Company announced that Medicare had established a new reimbursement rate for budesonide, a drug compound that was one of the Company's biggest sellers. This cut amounted to a 90% reduction in revenue for this drug, or $30 million in revenues for Rotech, most of which drops to the bottom line. The stock dropped from $14 to $4.50.

As the Company's largest shareholder, we are very disappointed to share this news. However, we continue to believe a catalyst for Rotech will occur in the future.

Walter Industries (NYSE: WLT) (www.walterind.com) - While we only own 4.99% of Walter, we decided to talk about this investment, which we made over three years ago, because it proves that it is better to be lucky than smart.

When we first acquired shares of Walter in early 2004, the Company was a true conglomerate. Its businesses consisted of Jim Walter Homes (home building), Midstate Finance (a home finance company), United States Pipe Co. (water pipe manufacturing), JW Aluminum (aluminum smelting), Sloss (coking), AIMCOR (a marketing and distribution company of coke and related products), Jim Walter Natural Resources (coal mining), and other industrial businesses. The Company's stock traded around $11 per share and we thought, based on the Company's performance at the time, the shares were worth at best $20 per share. Today, the stock trades around $67 per share. So what happened at Walter?

Over the last few years, the Company sold its aluminum business and AIMCOR (the coking distribution company) for combined proceeds of approximately $250 million, repurchased over 5% of its then outstanding shares at approximately $11 per share and reaped substantial benefits from the massive increase in metallurgical coal prices. Coal in particular has largely driven the price increase of Walter's shares. When we first acquired the shares, the coal business was barely breakeven. In 2006, we believe the coal business has the capability of generating over $700 million of sales and over $350 million of EBITDA.

To enhance U.S. Pipe, the Company acquired Mueller Water Products, the largest manufacturer of fire hydrants and related water infrastructure equipment. Earlier this year, the Company announced that it will IPO a portion of its water infrastructure business and spin-off the remaining ownership interest to the Walter shareholders. We, along with much of the market, believe this spin-off will create substantial value as the market continues to recognize the full value of Walter's water infrastructure business.

Finally, the Company recently announced that it will break itself up further and spin-off the home building and related finance business to shareholders. Therefore, Walter shareholders will own shares of three separate businesses: coal, water infrastructure and homebuilding/finance. Each of these businesses will be run by managers focused solely on their respective business and will report to boards that are focusing on the same. We congratulate the board and management of Walter Industries on a job well done. We also hope the board of KT&G is paying attention.

CO-INVESTMENT OPPORTUNITIES

Co-Investments Update - Steel Partners Japan Strategic Fund, L.P.

Steel Partners II, L.P., has approximately 8% 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") in April 2002.

For the year ended December 31, 2005, the Steel Partners Japan Strategic Fund ("SPJSF") generated a gross return of 39.2% and 36.8% net of fees and expenses. After the incentive allocation to the General Partner, the Limited Partnership earned a 30.4% return on its investment for the year. Investors in the Fund from inception (April 2002 - December 2005) have received a total net return of 106%, compared with a 46% return on the Nikkei 225 and a 56% return on the Topix over the same period in US dollar terms.

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

	Gross(1)	**Net**(2)
2002 - 2nd - 4th Qtr.	-0.6%	-0.7%
2003	26.8%	22.3%
2004	37.0%	30.1%
2005	36.8%	30.4%
2006 - YTD April 30th	3.8%	3.0%

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 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 still exist in the Japanese market. We are confident in our ability to identify new investment opportunities and add to existing positions that are still attractively priced.

For additional information or to read the most recent Steel Partners Japan Strategic Fund letter, please go to our website, www.steelpartners.com. To obtain user name and password, please contact Lauren Isenrnan at (212) 520-2320.

Steel Partners China Access Fund I, LP

Our initial close on February 28, 2006 for Steel Partners China Access Fund I, L.P. raised $142 million and our second close will occur on May 17, 2006. Please contact Sarah Castleman Weinberg at (214) 855-2464 or sarah@steelpartners.com with any interest or questions for the second close.

We have been working on a number of potential investments in China for many months and are pleased to report that we have been selected as the potential buyer of a block of shares owned by the state due to our relationship with the company's chairman (not due to price.) We are very excited about this investment opportunity and the others that are moving forward in our ever expanding pipeline. However, due to the speed at which business is conducted and practiced in China, certain deals will take some time to complete.

The satellite office in Beijing is in full operation and The Steel China team is working well together. We have decided not to act on a number of potential investments, including the rejection of an advanced stage deal after due diligence of its industry, competitors and the company's financials. We intend to stay focused and disciplined.

At this rate we expect to fund our first investment in the second half of 2006.

For additional information please see "Appendix A - Steel Partners China Access Fund" on our website, www.steelpartners.com. To obtain user name and password, please contact Lauren lsenman at (212) 520-2320.

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, L.P. and enjoy every minute. In fact, we are having more fun now than ever before with a team that is stronger than ever before. We have a local presence and a global reach.

We are pleased to announce the addition of John McNamara and Oliver Mihaljevic to the Steel Partners' team. Prior to joining Steel Partners in May of 2006, John was a Managing Director and Partner at Imperial Capital, LLC, which he joined in 1995. As a member of Imperial Capital's Corporate Finance Group, John provided advisory services for middle market companies in the areas of mergers and acquisitions, restructurings and financings. Prior to joining Imperial Capital, John was with BayBanks, Inc. from 1988. At BayBanks, John worked in a number of capacities that included lending and workout functions where he provided senior secured loans and restructured non-performing/distressed corporate and real estate loans. John received a B.S. in Economics from Ithaca College in 1988.

Oliver joined us in October 2005 as a financial/research analyst based in London. Prior to joining Steel, Oliver was a portfolio manager at Von Braun & Schreiber, a private equity partnership based in Munich, Germany. Previously, he was an associate in the equity research department of Credit Suisse First Boston in New York. Oliver graduated from Yale University in 2001 and is fluent in German and Croatian.

I am also happy to announce that Sarah Castleman Weinberg will be on maternity leave beginning July l, 2006. We are very excited for her and her family and wish them the best of luck in the coming months. Lauren Isenman, (212) 520-2320, and Terrye Dewey, (212) 520-2334, will be working on marketing for the fund during Sarah's absence. Please feel free to contact them if you have any questions.

In February 2006 Steel Partners completed the expansion of our offices located at 590 Madison Avenue. Our increased size enabled us to invest in upgrading our systems, technology, databases and overall infrastructure.

2006 & BEYOND

Our strategy continues to evolve and develop because the world is in constant transition. However, our philosophy endures. We continue to believe that all successful relationships and partnerships are built on trust. We want to thank all of our investors for placing their confidence and capital in Steel

Partners II, L.P. Moving forward, we hope to continue to build upon and strengthen the relationships we enjoy with all our partners. We have always treated our investors as true partners and will continue to have most of our personal capital invested in Steel Partners II. We eat our own cooking and enjoy it!

We believe the best way to reduce our risk of losing money while enhancing our probability of making money is to combine our knowledge, experiences and contacts and apply understanding to a particular situation with complete FOCUS.

In part, our success is dependent on the tangibles: Focus, Energy, Discipline, Integrity, Instinct, Desire, Persistence and Confidence. Additionally, temperament and perspective always matter. This is what allows us to remain level headed when so many others are in turmoil or euphoria.

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. Therefore, we seek out knowledgeable and patient investors who share our values and our long-term investment orientation. By deploying our capital with discipline, we believe we will continue to earn above-average risk-adjusted returns on our investments over a long period of time.

Based on anticipated investment capital needs for Steel Partners II, L.P., we will be opening to accept capital on July 1, 2006. Our current minimum investment threshold is $10 million for an initial investment and $1 million for additional contributions from current investors. All new investments are subject to the three year rolling lock.

Steel Partners has never and will never take its success for granted. 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, L.P., and our organization, please visit our website at www.steelpartncrs.com. To obtain user name and password, please contact Lauren Isenman at (212) 520-2320.