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May 1, 2007

Dear Limited Partners:

Performance Review for 2006 and Four Months Ended April 30, 2007

Steel Partners II, L.P.'s capital appreciated approximately 20.6% for the twelve months ended December 31, 2006, 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 16.5% return on investment.

For the four months ended April 30, 2007, Steel Partners II, L.P.'s capital appreciated by approximately 3.6% before the General Partners profit allocation but after all fees and expenses. After the 20% allocation to the General Partner, the Limited Partners earned a 2.9% return.

	Gross(1)	**Net**(2)
1993 - 4th Qtr.	6.9%	5.5%
1994	21.4%	17.1%
1995	26.9%	21.5%
1996	16.0%	12.8%
1997	60.6%	48.5%
1998	22.6%	18.1%
1999	48.7%	39.0%
2000	19.1%	15.3%
2001	8.0%	6.4%
2002	12.5%	10.0%
2003	22.1%	17.7%
2004	37.6%	30.1%
2005	0.2%	0.2%
2006	20.6%	16.5%
2007 - April(3)	3.6%	2.9%

Investors who have been with us from inception (October 1993 - April 2007) have received a total gross return of 1601 % and a gross compounded annual rate of return of 23.2%. 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.

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) Estimates

Today, our capital is invested internationally, with 72% in the US, 9% in Europe and 19% in Asia. It should be noted that even though many of the companies in our portfolio are domiciled in the United States, they are global companies that derive a significant amount of revenues and profits overseas. As our global platform has evolved and matured, we have continued to employ the same, purely bottom up (no secret formula), approach that has enabled us to locate opportunities that meet our strict investment criteria within the United States and abroad.

Managing for Value-Through Our Global Platform

Steel Partners II, L. P. is our global platform for relationship investing. Through our co-investment funds, Steel Partners Japan Strategic Fund and Steel Partners China Access, our investors are able to make more concentrated geographic investments. However, we view Steel Partners as one "global firm."

We have found that it takes time to make meaningful changes which will enhance long term value and we continue to manage for long term value creation and enhancement.

Steel Partners II, L.P. was originally set up to try to buy a company called Kinark Corporation at a discount to its intrinsic value (Private Market Value) and then to manage and build the business to create and build long term value for its stakeholders. We wanted to compound our invested capital at high risk adjusted rates of return over long periods of time. Our long term operating philosophy endures. As we have said many times in the past, we invest on the basis of value, not popularity. We would like to add that we invest on the basis of "long term value," not popularity.

It takes a great deal of time to identify attractive investment opportunities, to understand why a company is selling for a discount and what strategy needs to be implemented and executed in order to close the value gap. Unfortunately, this process takes time. Change takes time. Hence, our returns have been, and probably will continue to be, lumpy. But if we do our job properly, we have little risk of permanent capital loss. And, our risk adjusted returns should be high over the long term. We never forget the mantra ... Preservation of Capital!

Our global platform allows us to choose when and where we invest as well as why and how we engage our stakeholders - including our portfolio companies, investors, service providers, and partners. As an active investor, we seek opportunities within our risk return framework to maximize our long term sustainable returns and minimize our risk of losing money. We have the flexibility of adopting short or long term investment horizons (although we prefer long term) and the ability to take concentrated positions. As an active shareholder in 10% of our investments we aim to create and maximize sustainable shareholder value. We encourage a culture of excellence, leadership and sound governance in all of our portfolio companies.

When trying to identify an undervalued company or security we usually look for companies with inefficient capital structures, companies that have allocated capital poorly, or companies that can use operational improvements. We then look to see if we can work with the management teams and Boards to take corrective action to ultimately close the value gap. But, our real home run of long term sustainable returns comes from the implementation of operational excellence that can change a culture and transform a company into a world class company with competitive advantages and high returns on invested capital. In order to do so, we need to empower people to reach their potential and then hold them accountable for their results. And of course, reward people for successful execution.

To succeed in our strategy we need to attract, retain and motivate the very best people. It is a truism that a company can only be as good as its people - and we have excellent people. We know the principle of managing for value must remain a constant as must our integrity and excellence.

Risk vs. Reward

We created a proprietary database many years ago, which helps us track companies that we have researched and valued. Upon analyzing our database, we have come to realize that in the current market environment multiples are very high, there is a much smaller margin of safety and investors are not being properly or adequately rewarded for taking on more risk. Since it is harder to find a dollar trading for 50 cents people have relaxed their buying discipline and instead are willing to buy a dollar for 90 cents. Since the world has been awash with cash, prices have gone up as multiples have expanded. Companies we value at $10 per share are being purchased for $13-$14 per share, thereby rewarding investors who were willing to buy without a real margin of safety. We do not believe this style of investing can deliver sustainable returns over the long run. We made a conscious decision not to break from our rigid value parameters. Instead, we remain disciplined and run a concentrated portfolio - requiring us to only find one or two good ideas a year. Given our presence in North America, Europe and Asia we continue to find attractive investment opportunities that we can enter at attractive prices. We will remain disciplined and patient, because that is who we are and what we do.

Our Portfolio

We continue to reduce the number of names in our portfolio and plan to be more concentrated. Since we typically own greater than 5% of a company and must provide public disclosures about these holdings, our portfolio is extremely transparent. Our investment holding period is usually four to five years.

Information and annual reports on 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 is continuing its policy of only discussing specific investments after we own 5% or more of a public company and have 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 9% 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:

Adaptec Inc. (NASDAQ: ADPT), Angelica Corporation (NYSE: AGL), API Group PLC (API - LN) a U.K. company, BKF Capital Group, Inc. (NYSE: BKF), BNS Co. (OTC: BNSXA), Brink's Company (NYSE:BCO), Continental Materials Corporation (ASE: CUO), Cosine Communications Inc. (OTC:COSN), Del Global Technologies Corp. (OTC: DGTC), 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), Mueller Water Products, Inc. (NYSE: MWA), (Nathan's Famous (NASDAQ: NATH), New Frontier Media Inc. (NASDAQ:NOOF), P&F Industries, Inc. (NASDAQ: PFIN), Photo-Me International plc (PHTM-LN), Renold PLC (RNO-LN) a U.K. company, Ronson Corporation (OTC:RONC), Rotech Healthcare Inc. (NASDAQ: ROHi), Selectica Inc. (NASDAQ: SL TC), SL Industries, Inc. (Amex: SLI), Stratos Lightwave Inc. (NASDAQ: STLW), Uniq PLC (UNIQ-LN) a U.K. company, United Industrial Corporation (NYSE: UIC), WebFinancial Corporation (OTC: WEFN), and WHX Corporation (OTC:WXCP).

NEW POSITIONS AND COMPANY UPDATES

USA

Adaptec Inc. (NASDAQ: ADPT) (http://www.adaptec.com) - We currently own about 10% of Adaptec, which we purchased earlier this year at tangible book value per share. The company supplies storage solutions that help manage and protect critical data and digital content. The company has been eliminating unprofitable businesses and product lines. The core solutions business had revenue of about $235 million in the trailing twelve months and is profitable. Additionally, the company has about $575 million of cash, a $100 million NOL, and owns a large building in Milpitas CA. The company has a convertible bond outstanding that has a coupon of only 3/4% interest, and is exercisable at about 4 x the current price. We believe there is limited downside risk in this situation, and many different opportunities for this to be a profitable investment.

Bairnco (NYSE: BZ)(www.bairnco.com) - After being invested in Bairnco for more than ten years and owning 15% of the company, we decided to try to buy the rest of the company. Our goal was to speed the rate of change and the implementation of operational excellence. We made an offer to purchase the remaining 85% of the shares we did not own. Our original bid was $12.50 per share. We later increased our offer to $13.50 per share, and subsequently have agreed to acquire 100% of the company in a FRIENDLY NEGOTIATED TRANSACTION. We are confident that our operational excellence agenda can be very successful with this acquisition. We have also assigned our purchase contract to one of our portfolio companies, WHX Corporation, where we own over 50 % of the Company. In doing so, we intend to leverage WHX' s corporate infrastructure which should reduce overall corporate overhead. We will keep you posted on our progress.

The Cronos Group (NASDAQ: CRNS) (www.cronos.com) - We began purchasing Cronos Group in December 1997 at approximately $3 per share. The company is a large international lessor of containers based in San Francisco. In January 2001 we filed our first 13d, and continued to buy until June 2004, when we owned 19.99% of the company. The company has announced they have entered into a definitive agreement to be purchased by a large bank at $16 per share, which should close in June 2007. We will receive approximately $22.5 million or about 3.3 x our invested capital. We never needed or requested board representation and had a very good working relationship with Dennis Tietz, the CEO, as well as other members of the Board. We are supportive of this acquisition and feel it is best for the shareholders and the employees. We wish Dennis and his team well in the future.

Del Global Technologies Corporation (OTC: DGTC.PK) (www.delglobaltech.com) - Steel Partners II, L.P. currently owns 20.9% of Del Global and has owned shares of this company since 2002. After working with the existing management team for several years to resolve numerous litigation issues, the Board decided in July 2006 (with our support) to replace senior management and hire a new team. Del Global now has all new senior executives in place and is on track to increase Sales and EBITDA. The company has also been successful in raising new capital by selling new shares to its existing shareholders through a rights offering. Del Global issued subscription rights to purchase 12,027,378 shares of common stock at a subscription price of $1.05 per share. The net proceeds will be used for debt repayment, working capital needs, and will also be used to invest in new technology complementary to Del Global's business, or potential acquisitions.

Foamex Corporation (NASDAQ: FMXIQ) (www.foamex.com) - Steel Partners II, L.P. was the largest holder of both classes of the Company's senior subordinated notes and also served on the unsecured creditors committee. As we stated in our last update, our goal was to keep the Company in bankruptcy as long as possible until it could return to normal levels of profitability thereby maximizing our returns.

As you may recall from our last update on Foamex, record energy prices destroyed the Company's profitability in 2005 ultimately causing the Company to file for bankruptcy in September 2005. In 2006, the Company raised selling prices significantly and the

Company generated record profitability and cash flow. These improved results allowed the Company to find new lenders to refinance all of the existing debt as well as find new equity investors. The net result was that both classes of our bonds were to be repaid in full plus accrued interest. Once the revised plan of reorganization was announced to the public in October 2006, we sold our bonds at approximately 115 and 125 depending on the class. These bonds traded as low as 6 at the end of December 2005 and, unfortunately, contributed to our low return for that calendar year.

While our investment caused many headaches and sleepless nights, it clearly demonstrates our long-term investment horizon and our ability to work with other constituencies through a bankruptcy process. It also proves that we know value and are not afraid of a little volatility!

Mueller Water Products (NYSE:MWA.B)/Walter Industries, Inc. (NYSE:WLT) (http://www.walterind.com) - Steel Partners II, L.P. had been one of the largest shareholders of Walter Industries, Inc., a conglomerate with operations in metallurgical coal mining, water infrastructure products (Mueller Water Products), homebuilding and a related financing company since April 2004. In May 2006, Walter sold shares of Mueller Water Products in an IPO representing approximately 25% of Mueller. In December 2006, Walter distributed its remaining ownership of Mueller shares to Walter shareholders. As a result of the spin-off and subsequent open market purchases of Mueller, Steel Partners II, L.P. became one of the largest shareholders of Mueller. Today, we own approximately 7.6% of the B shares of Mueller.

Mueller's products include: Mueller fire hydrants, the leading manufacturer of fire hydrants in the U.S.; United States Pipe, the second largest manufacture of iron ductile water transmission pipe; and, Anvil, a manufacturer of water and gas valves. Mueller as a standalone business has revenues of $1.9 billion and EBITDA of approximately $350 million. Mueller has already consolidated several manufacturing operations and is working on further cost savings. We believe that Mueller can benefit from implementing lean manufacturing, which can reduce their bloated inventory levels, as well as low cost regional manufacturing opportunities. Finally, we believe the long-term prospects for Mueller are excellent. As the existing water infrastructure in the U.S. ages, it will need to be replaced in the next 10-20 years. As one of the leading manufacturers of water infrastructure products, Mueller is well positioned to take advantage of the upcoming demand.

We sold all of our remaining Walter shares in December 2006 and January 2007. Overall, our investment in Walter was very successful.

Layne Christiansen (NASDAQ:LAYN) (http://www.laynechristensen.com) - We have exited our whole position in Layne and John Quicke will not stand for election at the next board meeting. Our original Form 13D was filed in November 2003 with an average cost approximately $8.62 per share; we then increased our ownership and eventually become the company's largest shareholder, and had representation on the board of directors. The company provides drilling and construction services and related products principally in water resources, mineral exploration, and geoconstruction markets. While we where invested in the company its operating results improved substantially and several acquisitions where consummated. After the stock appreciated to our target price we SOLD our shares in the open market. We want to thank the Board of Layne and Layne's management team for this wonderful (and profitable) experience. I will miss Kansas City!

EUROPE

Lavendon (LVD LN) (www.lavendon.co.uk) - We first acquired shares in the company in the first quarter of 2005 when it was suffering from overcapacity in the UK and Germany and profitability had been under pressure. LVD significantly cut capital spending, paid down debt with improved cash flows and focused on improving efficiency and fleet utilization. LVD proceeded to make three acquisitions in the UK, which extended its market leadership. LVD also acquired one of its main competitors in Germany making it the largest operator in that market.

We made over 100% on our invested capital and sold shares to the public market because we didn't see an obvious strategic buyer and the stock was trading at our intrinsic value estimate.

Photo-Me (PHTM LN) (www.photo-me.co.uk) - Steel Partners II, L.P. now owns more than 11 % of the company. Photo-Me operates a network of vending machines, predominantly ID photo booths, with market leading positions in Japan, the UK and France. It also manufactures photographic printing equipment. On June 5, 2006 the company announced it was conducting a strategic review which may have led to an offer being made for the company. On November 15, 2006 the company announced they had terminated discussions with potential buyers. Management stated that they believed selling the entire company to a single buyer would not maximize value and they would continue to review the strategic options for the individual businesses separately. On January 29, 2007 the company hired Lazard & Co. to conduct the subject review with JP Morgan Cazenove. We are waiting for management to report on the outcome of the review. The equipment manufacturing businesses have seen a further deterioration in profits and we expect this division to little more than break even in the year to 4/07. The stock is trading below our cost and we are working hard to ensure management does what is necessary to improve performance. This is still a work in progress.

Renold (RNO LN) (www.renold.com) - We continue to own more than 10% of Renold, a manufacturer of industrial power transmission products. The company has now completed the sale of its automotive chain and machine tool businesses which leaves it as a pure play industrial power transmission manufacturer. Renold's remaining businesses have good positions in attractive markets and we believe the company can significantly improve margins and cash flow. Operating margins in the remaining power transmission businesses have doubled since we first invested and we believe margins can increase an additional 3-4% as they replace high cost capacity in Europe and the US with low cost capacity in China and Eastern Europe. Bob Davis, the company's CEO, continues to execute a strategy we fully support.

Uniq (UNIQ LN) (www.uniq.com) - Steel Partners II, L.P. continues to own more than 13% of Uniq, a food manufacturer with operations in the UK and Continental Europe. Since we acquired our first interest in the company it has hired a new CEO, a new Chairman, new CEOs for its three main operating businesses, and has repaired its balance sheet with the proceeds from the disposal of non-core assets. Luckily, the sale of Uniq's French spreads and Belgian salads businesses generated significantly more in proceeds than we had expected. St. Hubert, its French dairy spreads operation was sold for £248 million, a business with sales of less than £70 million generating £23million of EBITDA.

At the current price Uniq's market capitalization is £220 million; it has approximately £60 million of net cash and is incurring losses of approximately £5 million on over £700 million of sales. We think that the remaining businesses can and will earn adequate returns.

Geoff Eaton, the CEO, and his management team have done a great job so far and we are happy to be invested with them.

ASIA

KT&G (KS:033780) (www.ktng.com) - KT&G is the largest manufacturer and distributor of cigarettes and red ginseng in South Korea . Additionally, KT&G owns over 700 million square feet of real estate (much of it is excess, unutilized), 57% of Yungjin Pharmaceutical (KS:003520) 20% of YTN (KS: 040300) and 14% of Celltrion, a South Korean bio pharma company. The company generates over USD800 Million in EBITDA a year and has no debt.

Today, KT&G shares trade around KRW67,000. For the first quarter of 2007 KT&G reported revenue of KRW515 billion and net income of KRW130 billion, which is significantly better than 2006. Additionally, KT&G announced an additional four million share repurchase program. We are pleased with recent events at KT&G, but still believe the company's shares are undervalued and intend to continue to help the company increase the value for everyone.

Sapporo (2501) - On February 15, 2007, SPJSF submitted a proposal to Sapporo Management requesting discussions to secure their recommendation for a negotiated transaction to acquire 66.6% of shares at ¥825 per share with voting rights in the Company. SPJSF owns 16.9%, 18.0% with affiliates, of the outstanding common stock of Sapporo. Sapporo is the third-largest brewer in Japan and has substantial real estate assets.

SPJSF is already the largest shareholder in Sapporo. Prior to the proposal, SPJSF made a formal request to Sapporo's Management to include two agenda items to be voted on at the shareholders' general meeting on March 29, 2007. The first SPJSF agenda item to remove the current Advanced Warning System plan (analogous to a poison pill) was not included as Management proposed replacing its existing AWS plan with a new one, subject to shareholder approval. The second agenda item consisted of Sapporo amending its articles of incorporation to only adopt anti-takeover defenses upon resolution at a shareholders' meeting. SPJSF initiated a proxy solicitation campaign and issued a number of press releases advocating that an AWS plan was not in the best interests of Sapporo shareholders. Unfortunately, we did not get the vote passed but we did have a lot of support from our fellow shareholders – GAME ON!

CO-INVESTMENT UPDATE

Steel Partners Japan Strategic Fund, L.P.

Steel Partners II, L.P., has approximately 9% 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, 2006, SPJSF generated a gross USO-class return of +12.7% and +8.4% to limited partners net of all fees, expenses and the incentive allocation. For JPY-class, returns were 7.4% and 4.9%, respectively. Investors in the Fund from inception (April 2002 - September 2006, USD class) have received a total net return of 128.9%, compared with a 74.2% return on the Nikkei 225 and a 76.8% return on the Topix, over the same period in US dollar terms.

Our performance since inception is listed below for your review:[1]

	Gross[1]	**Net**[2]
2002 (since April 1st)	1.5%	-0.7%
2003	29.8%	22.3%
2004	39.6%	30.0%
2005	42.0%	33.7%
2006	12.7%	8.4%
2007 (1st Quarter unaudited)	8.2%	6.2%

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

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1) Represents USD-class returns.

2) Gross Returns are before all expenses and GP's profit participation.

3) Net Returns are after all expenses and GP's profit participation.

Steel Partners China Access Fund I LP

Steel Partners China Access I LP ("SPCAF" or the "China Fund") was established in early 2006 with the intent to acquire significant or controlling stakes in Chinese companies at a discount to their intrinsic worth and to seek to add value to these companies prior to a pre-defined exit to a multinational corporation, or to the public market. We set out to focus on acquiring the "state-owned" or "legal person" shares of Chinese companies to achieve our objectives. Due to the faster-than-expected pace of the non-tradable shares reform in China, opportunities in the legal person shares have diminished. Although this decreases our investment opportunity through that approach for now, other channels for investment remain potentially available to the China Fund. In November 2006, we submitted our first potential investment (Project Paper) to the government authorities for regulatory approval under the "Strategic Foreign Investor Measures" issued in 2006.

While the Fund's investment strategy is aligned with the intention of these new regulations, the regulators are only now beginning to work through their implementation of these rules to qualify investors. While qualifying the Fund to invest under these new regulations, either directly or indirectly, cannot be assured at this time, we continue to work through the process and believe we will have a positive resolution.

Heng Feng, known as Project Paper in our last letter, is pending approval. A public announcement was made by the company as its board approved the placement of shares to our Fund. The company is the world's third largest (specialized) paper manufacturer in one specific application. The business is attractive, clean, focused and has a management team whose interests are aligned with ours through a specific equity incentive plan already agreed upon. We will be the second largest shareholder of the company after the local government. We expect to have board representation, an agreement on certain amendments to the company's articles of association, such as a new dividend policy, and plans to assist with export sales, which will make this investment the first to demonstrate the advantages of relationship investing in China.

MANAGEMENT AND INFRASTRUCTURE OF THE PARTNERSHIP

We are pleased to announce that we hired Sandy Antignas to be the Chief Operating Officer of Steel Partners in November 2006. Prior to joining the firm, Sandy was a Managing Director of Bassini, Playfair and Associates LLC, an emerging markets private equity firm. Sandy served as Bassini' s Chief Financial Officer and was a senior investment professional from 1996 to 2005. Mr. Antignas is a graduate of the University of California, Berkeley with a B.S. in Business Administration with a concentration in accounting (1983). He also earned a M.B.A. from New York University with concentrations in finance and international business (1987). Mr. Antignas is also a degree candidate for a Master of International Affairs from Columbia University and is a Certified Public Accountant. Our new structure, utilizing a COO to oversee accounting, marketing, and client services, has made a big difference in the organization of the firm and improved our ability to provide the best in class service to our partners. And as important, it has allowed me to spend more time doing what I love most - investing and managing our capital!

Dror Bar-Ziv joined Steel Partners, Ltd. in February 2007. Previously, he was with Ares Management LLC beginning in 2003 where he was a member of its private equity group, responsible for assessing, executing and managing leveraged buyouts, restructurings, PIPEs, as well as growth equity and debt investments. Dror began his career in 2000 at Morgan Stanley & Co. in Hong Kong, participating in the execution of mergers, acquisitions, equity and debt financings and capital restructurings across Asia and spanning various industries. He is a graduate of Harvard University with a B.A. in government with honors (2000).

After two and a half years with Steel Partners, Terrye Dewey left the firm to pursue other entrepreneurial opportunities. Terrye has played a role in our success during her tenure, which is much appreciated. We wish her all the best in her future endeavors. Going forward Lauren Isenman will be taking over her responsibilities. Lauren can be reached by phone at (212) 520-2320 or by email at Lauren@steelpartners.com.

We have a terrific management team with extensive operational, managerial, financial, legal and practical experience. We continue to grow and strengthen our organization with great people and maintain a local presence in Europe, Asia and North America.

We continue to have most of our personal net worth invested in Steel Partners II, L.P., and the General Partner is the largest single investor in the fund. Steel Partners II, L.P. 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 has been and will continue to be an invaluable resource for our firm.

Respectfully,

Warren Lichtenstein

For additional information on Steel Partners, and our organization, please visit our website at www.steelpartners.com. To obtain user name and password, please contact Lauren Isenman at (212) 520-2320.