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October 20, 2006

Dear Limited Partners:

Steel Partners II, L.P.'s capital appreciated approximately 9.59% for the nine months ended September 30, 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 7.65% return on investment.

Investors who have been with us from inception (October 1993 - September 2006) have received a total gross return of 1479% and a gross compounded annual rate of return of 23.02%. 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.

**Steel Partners II L.P. - Our Global Platform for Relationship/Active Value Investing**

Six years ago we were 100 percent invested in the United States. Today, our capital is invested internationally, with 69% in the US, 9% in Europe and 22% in Asia. As our platform has evolved and adapted to the demands of a more global focus, 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, both within the United States and abroad.

Over the past 16 years Steel Partners has grown into a multi-billion dollar investment firm with a presence in New York, Los Angeles, London, Tokyo, Beijing, Hong Kong and Seoul.

Throughout the years, we have come to be identified as a hedge fund ( we prefer to be called a private investment partnership). More recently, we have been labeled "Activists." The reality is that Steel Partners has always been "Relationship/Active Value Investors". Of course, we would rather be passive than active since its takes less time and energy, but things are usually cheap for a reason. In any given year, we are "active" in only a few companies in the portfolio. Unfortunately, these are the situations that receive most of the media's attention.

Since the inception of Steel Partners in 1990, the number of hedge funds has grown substantially, but our strategy has remained focused and consistent. We believe now, as

we believed then, that our strategy of investing in fundamentally sound yet undervalued companies, with the ability to act like an owner and to be a catalyst to close the value gaps will yield superior returns to our investors. These strategies often include convincing management to change from the status quo on their own or through board representation, proxy voting or even placing one of Steel Partners' dedicated and experienced operating executives in a senior management position within our portfolio companies. Additionally, we always have the option to acquire the remaining balance of the target company that we don't already own.

The success of our strategy is documented in numerous cases within our portfolio. Examples include our investments in United Industrial Corporation (NYSE: UIC), and SL Industries (NYSE: SLI). In both cases, we had proxy contests in order to effect changes in management and corporate governance on behalf of all of the shareholders. Ultimately, we were able to implement improvements in capital structure, cost structure and operational strategy that have been reflected in the current stock prices. Today, both companies trade well above our initial investment price: UIC is up over 500%, SLI is up over 600%. We continue to hold meaningful positions in both companies.

At present, we are fully invested; however, we continue to identify promising opportunities to invest more capital in existing portfolio companies and in new companies across various layers of the capital structure and geography. Given the high quality opportunities we see in the market, we are opening Steel Partners II to additional investment with the intention of raising \$500 million by December 31, 2006.

As you read the above results, please remember that our concentrated, actively managed portfolio will often generate lumpy returns. This does not concern us since we believe that our style of investing will produce superior, risk-adjusted returns over the long-term. The GP is the largest single investor in the partnership. We put our money where our mouth is.

### **Operational Excellence – A real value enhancer**

Last year, we added operational excellence to our bag of investment tools and skills. Some of the companies we control have great assets, products and people, but do not perform optimally. In these companies, we are introducing and pushing the concept of Operational Excellence. By Operational Excellence we refer to a broad category of operating skills including lean manufacturing, six sigma, strategy deployment, low cost region sourcing, kaizen, value stream mapping, 5S - Sort, Straighten, Shine, Standardize, Sustain and others. These programs maximize productivity by eliminating waste of all types, improving quality, accelerating the time to market, reducing working capital and improving the company's business processes. Many of these tools are used at world class manufacturers such as General Electric, Motorola and Toyota.

During 2006, we assisted Dan Murphy at WHX in forming an Operational Excellence Council to roll out lean manufacturing throughout the Handy & Harman subsidiaries.

A tremendous amount of training is currently in process at Handy & Harman as they begin the lean transformation journey. We expect to see substantial improvement at WHX from these efforts beginning early next year.

Also in 2006, Jim Taylor at SL Industries completed a lean assessment of all his operations and is in the planning stages of a lean transformation at SL. We look for big improvements at SL as well. We are also in the process of helping APT, one of our investments in the UK, begin the process of a lean transformation. API is already rolling out lean manufacturing in one of its divisions and is in the assessment stage in two others.

In 2007, we will continue to look for opportunities where our knowledge in Operational Excellence can help enhance the value in all of our businesses.

### **Relationship Investing – Requires Action, Not Words, and Operating Skills are A Must**

We have consistently said that finding attractively priced investments is not enough. Our goal is to own a business, or a piece of a business, where as responsible owners we can work with companies to increase their value over an extended period of time. We feel very good about our current portfolio and believe it is trading for a substantial discount to the true value of the underlying businesses. In fact, we review the upside/downside in each name every day and feel that we currently have the most promising risk/reward and upside potential in the portfolio since our inception. Many companies in our portfolio are in transition mode and the true value is not apparent to the untrained eye (which is good for us since we can buy more at attractive prices).

Many issues confront directors and managers today including how to respond to the various demands made by shareholders, employees, customers and vendors.

There is also a lot of discussion in the boardroom and press about relationship investing and shareholder activism. Some shareholder “activists” write letters in which they disparage the board, management and other investors. Others will march into a company’s executive suite demanding immediate changes without having a thorough understanding of the company.

Steel Partners is a long-term, value investor that believes an activist approach is sometimes required to realize the full value of an investment. While we build our position, we learn and evaluate a company’s business and capital allocation strategies. During that time, we give management an opportunity to demonstrate their plan (assuming they are not bleeding cash). We ask many questions and offer suggestions based on our experiences.

It seems to be easy these days to ask a company to make certain changes that will ultimately benefit the company and its shareholders. These suggestions can include the company implementing a major stock buyback or putting itself up for sale. Since we know most companies prefer the status quo to change, and can simply say “thank you for the kind suggestions,” the real question becomes: What is a shareholder to do once a company says, “Thanks, but NO Thanks.” Is there a “Plan B”?

We think it is imperative to have a “Plan B,” which includes having alternative directors and managers lined up to replace underperforming people once all the avenues of diplomacy have been exhausted. Regardless, we believe in allowing the true owners of the corporation to decide what is best. In a given proxy contest, we may offer shareholders an alternate slate of directors with the single purpose of fixing the issues at hand. In other instances, we may launch a tender offer to acquire the balance of the company that we do not own, effectively providing increased liquidity to the shareholders.

Steel Partners has been a practitioner of this type of planning for years and has demonstrated time and time again that we can implement change for the benefit of all constituencies. Unfortunately, we have had our share of losses, but they have been very small in relation to our successes.

Becoming a director of a public company is serious business and requires a lot of time, energy and hard work. What is one to do once he/she gets on a board or gets influence or control over the management and the company? When a company has good business operations, but is overcapitalized, the fix can be as simple as repurchasing shares or increasing the dividend. Other companies require deeper solutions like a strategic review of all assets and operations to improve profitability and the return on assets. In some instances a company has gone as far as it can go independently and may be more valuable to a larger competitor and so a sale is the best course of action. Today, Steel Partners has nine people sitting on 15 boards around the world.

### **Our Portfolio**

Since we typically own greater than 5% of a company and have to make public disclosures about these holdings, our portfolio is extremely transparent. Our investment holding period is usually four to five years, and so we have tried to match this investment time horizon to our capital base by implementing a three-year lock up on our fund’s assets. We think this is reasonable compared to a traditional private equity fund which typically has a ten-year lockup and offers much less transparency than Steel Partners.

### **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 is continuing its policy of only discussing specific investments after we own 5% or more of a 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 8.7% 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), Cronos Group (NASDAQNM: CRNS), Del Global Technologies Corp. (OTC: DGTC), Delta PLC (DLTA-LN) a U.K. company, Earthlink Network Inc. (NASDAQ:ELNK), 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), KT&G (KS:033780), Lavendon Group plc (LVD-LN) a U.K. company, Layne Christensen Co. (NASDAQNM: LA YN), London Scottish Bank plc (LSB-LN), Nathan's Famous (NASDAQ: NATH), New Frontier Media Inc. (NASDAQ:NOOF), Newfound NV, NOVT Corporation (PINK: NOVT ), 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), 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), Walter Industries (NYSE:WLT), WebFinancial Corporation (NASDAQ: WEFN), and WHX Corporation (OTC:WXCP).

## **NEW POSITIONS**

**Collins Industries, Inc. (CNSI.PK) ([www.collinsind.com](http://www.collinsind.com))** - On September 26, 2006 we signed a merger agreement to acquire Collins Industries, Inc. for \$110 million, or \$12.50 a share. We are purchasing Collins in affiliation with American Industrial Partners (AIP), an operationally focused private equity firm. The Board of Directors of Collins unanimously approved the merger and has recommended that Collins' shareholders approve the merger. On September 27, 2006 we signed a memorandum of understanding to assign this transaction at closing to a publicly traded company where we

have a meaningful ownership position, and which has cash and has been actively seeking an acquisition. We have created our position in this entity below cash value.

Collins is a leading manufacturer of ambulances (including medical attack vehicles, rescue vehicles and fire emergency vehicles), North America's largest producer of Type "A" small school buses, the nation's second largest manufacturer of terminal trucks and a leader in the road construction and industrial sweeper markets. AIP and the operating team at Steel Partners have identified substantial operational improvements that can be swiftly implemented at Collins, including lean manufacturing initiatives, improved procurement practices, and cost-saving consolidations. We are excited about owning Collins, and believe this will provide a very high return on investment.

## **COMPANY UPDATES**

### **USA**

**Angelica Corporation (NYSE: AGL) (www.angelica.com)** - Steel Partners owns 19.9% of Angelica and has owned shares of this company since 2002. In August, we reached a settlement with Angelica providing for the immediate appointment of two Steel Partners designees, Jim Henderson and John Quicke, to the Angelica Board of Directors. The settlement also provided for the de-staggering of the board of directors, and other corporate governance reforms including that the company refrain from renewing its Shareholders Rights Plan without satisfying certain conditions. We look forward to working together with the company to improve operations and increase value for all shareholders.

**Bairnco (NYSE: BZ) (www.bairnco.com)** - On June 22, 2006 Steel Partners launched a cash tender offer for the 85% of Bairnco that we do not own at \$12 per share. Subsequent to this offer, the company implemented a poison pill with a 20% threshold and hired Lazard Freres & Co. LLC to explore strategic alternatives including the possible sale of the company. The company announced on October 13 that they would like to remain independent. Also on October 13, Bairnco announced that Kasco, its wholly owned subsidiary purchased the assets of Southern Saw for \$14 million. In regard to our tender offer, including the shares we own, 50% of the outstanding shares have been tendered to us. We are looking at our options at this time.

We first purchased Bairnco shares about ten years ago, and know the company quite well. At our offer price, we would be glad to own the company and know as a private company we could improve profitability by eliminating the costs of being public and by implementing an Operational Excellence initiative.

**NOVT Corporation (NOVT) (www.novoste.com)** - Steel Partners now owns 23% of NOVT, a failed medical products company. Recently, Steel Partners worked with the incumbent board to restructure the board and now have two of four board seats, which include John Quicke and Jack Howard. The company sold all of its businesses and now

has approximately \$7 million of cash, a note receivable for \$3 million, and approximately \$85 million of NOLs. The new board's mandate is to find a profitable acquisition. If you know of any, please call Jack Howard or me.

**Stratos International, Inc. (NASDAQ: STLW) ([www.stratoslightwave.com](http://www.stratoslightwave.com))** - Steel Partners owns 14.9% of this manufacturer of RF and Microwave components and interconnect products. We began purchasing shares of Stratos in January 2005. We believe significant shareholder value can be recognized by improving or shutting unprofitable operations, implementing Operational Excellence programs, reducing central corporate overhead costs and lowering R&D spending. After exhausting all efforts to privately discuss with the Board of Directors a value enhancing transaction, in June 2006, we made an offer to buy the shares of Stratos that we don't already own for \$7.50 per share (a 23% premium to the then current price). At the same time, we notified the company of our intention to nominate five individuals for election as Directors at the 2006 Annual Meeting. In response, the company recently announced that it has decided to explore various strategic alternatives for Stratos to maximize shareholder value, including the possible sale of Stratos. The company has also announced the postponement of its 2006 Annual Meeting while it devotes its attention to this process. We are hopeful that this process will be completed by the end of 2006.

**Walter Industries (NYSE: WLT) ([www.walterind.com](http://www.walterind.com))** - In May 2006, Walter completed an initial public offering for 25% of Mueller Water Products (NYSE: MWA). As you may recall from our last letter, Mueller is a leading manufacturer of fire hydrants, valves, water transmission pipe and other fittings and plugs for the water and gas infrastructure markets. Walter owns the remaining 75% of Mueller and expects to distribute these shares to shareholders before the end of the year.

The major component of what will be left at Walter is the coal mining business. For 2007, the company forecast 7.4-7.8 million tons of production. We believe the coal business should generate \$50 per ton of EBITDA under the company's current pricing, or \$330 million in 2006 and \$380 million in 2007 using the midpoint of the current production forecasts. Additionally, coal bed methane production is expected to generate \$40 million of operating income this year, but will likely fall next year. We note the company did a nice job of hedging 60% of 2006 production at \$10 per mmBTU.

Management is still working on a turnaround of its business. The company previously announced its intention to spin-off this business and the related financing company, but has not provided an update in regard to timing.

Walter shares have been very volatile in 2006 beginning the year around \$50, trading as high as \$70 only to fall to around \$43 recently. We were able to sell some shares between \$65-70 then subsequently purchased more shares when the stock traded below \$50 and now own approximately 5.4% of the company. We continue to believe Walter shares trade at a significant discount to the sum of its parts. Additionally, we will own approximately 4% of Mueller once those shares are distributed to shareholders.

## **EUROPE**

**API (API LN) ([www.api-group.com](http://www.api-group.com))** - Steel Partners II and WebFinancial continue to own 29.9% of API, a packaging materials producer with operations in Europe, the US and China. The operating performance has been disappointing and in July, the company announced it expects earnings to be materially below market expectations. Luke Wiseman joined the board in September and we are working hard with management to turn the underperforming businesses around. API is still very much a work-in-progress but after the operational improvement review we feel that earnings can be increased dramatically.

**Nettec (NTC LN) ([www.nettec.co.uk](http://www.nettec.co.uk))** - Steel Partners owned approximately 22% of this cash shell listed in London. Luke Wiseman joined the board in 2005 and in April 2006 the company announced that the Newfound Group, a developer of luxury vacation resorts, will reverse into Nettec. Our cost was 7.5p per share, the company had approximately 8.8p per share in cash, that was valued at 13.5p in the merger with Newfound. Although this is a small position for the fund it was a satisfactory outcome. Luke has now stood down from the board and is on to the next project.

**Photo-Me (PHTM LN) ([www.photo-me.co.uk](http://www.photo-me.co.uk))** - Steel Partners now owns 6.2% of the company. On June 5, the company made the following statement, 'PMI today confirms that it has been conducting a strategic review, which may or may not lead to an offer being made for the company, and has appointed JPMorgan Cazenove as financial adviser in this matter.' On September 20, the company confirmed the strategic review is continuing. Hopefully, we will be able to report on a successful outcome from the review in the not too distant future.

**Renold (RNO LN) ([www.rcnold.com](http://www.rcnold.com))** - We have increased our holding in Renold, a manufacturer of power transmission products, and Steel Partners now owns more than 10% of the company. The company announced the sale of its loss making automotive chain business and that it is currently negotiating the sale of its machine tool businesses, although the terms of the second transaction have not been announced. These sales will leave Renold as a focused power transmission business where it has a strong market position and a good long term future. The core businesses are improving their margins and revenues are growing ahead of our expectations. Overall management is making good progress.

**Uniq (UNIQ LN) ([www.uniq.com](http://www.uniq.com))** - We continue to own more than 12% of Uniq, a food manufacturing business with operations in the UK and continental Europe, and we are the company's largest shareholder. Since Geoff Eaton was appointed CEO in August 2005, the company has made a number of positive changes. New CEOs have been appointed to each of its three divisions and generally the depth and quality of management has been strengthened. In June, the company announced it had hired Lazard and Rabobank to sell its French spreads and Belgian salads businesses. We expect pre-tax proceeds to exceed £200 million from these disposals. If we are correct, we are creating the continuing business at a significant discount to intrinsic value. At our cost, we estimate the post disposal enterprise value is only £145 million. The remaining businesses will do

revenues of more than £700 million and currently break even. We have visited many of the operations, spoken to suppliers, customers and competitors and believe the remaining businesses have the potential to generate adequate returns on sales and capital.

## 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, 57% of Ymlgjin Pharmaceutical (KS:003520) 20% of YTN (KS: 040300) and 14% of Celtrion a South Korean bio pharma company. The company has over \$600 million of cash and no debt.

As you know from our last letter, in January 2006, Steel Partners formed a shareholders group with entities controlled by Carl Icahn (disbanded September 2006). Both Steel Partners and the Icahn entities believed that at a share price of KRW48,000, the company's shares traded at a large discount to their intrinsic value and we offered many suggestions for ways that the company could maximize shareholder value. Once we were convinced that management and the Board were not interested in our ideas, our group nominated a dissident slate of directors for election at the annual meeting in March. I was ultimately elected to the Board of Directors.

Since I was elected to the Board, the company sold Buy The Way, the fifth largest convenience store chain in South Korea for approximately \$43 million and hired Booz Allen Hamilton to explore ways to maximize shareholder value. Ultimately, management recommended and the board approved a \$2.9 billion return of capital to shareholders, which will be done over three years through a dividend increase of 40% and a program to repurchase 12 million shares. The Board also agreed to divest non-core assets including the company's vast real estate holdings and to implement many of the operational improvements, which were suggested by Booz Allen.

Today, KT&G shares trade around KRW55,000. 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. Additionally, the board meetings are much more congenial!!!

## CO-INVESTMENT 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 first 9 months of 2006 the fund has appreciated 1.3%. Investors in the Fund from inception (April 2002 - September 2006) have received a total net return of 107.3%, compared with a 64.3% return on the Nikkei 225 and a 70.6% return on the Topix, over the same period in US dollar terms.

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.

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](http://www.steelpartners.com). To obtain user name and password, please contact Lauren Isenman at (212) 520-2320.

### **Steel Partners China Access Fund I LP**

Steel Partners China Access I LP (the “Fund” or “SPCAF”) had its first closing on February 28, 2006, followed by a second closing on May 24, 2006. We received commitments totaling just over \$250 million from a diverse group of investors including \$100 million from Steel Partners II, LP. We anticipate having our final closing on or before the anniversary of the fund’s inception date, February 28, 2007.

Our Hong Kong and Beijing offices were opened in 2005 by the Fund’s investment adviser, China Access Advisors Limited, with all licenses and regulatory approvals. Our team currently consists of five professionals in Beijing and two professionals in Hong Kong. Additionally, we are interviewing for a senior analyst who has over ten years of experience investing in China to complement our Beijing team.

We remain focused on our investment model, which is to buy significant or controlling stakes in Chinese companies at a discount to their intrinsic value and to seek to add certain value to these companies prior to a pre-defined exit to a multinational corporation (“MNC”), or to the public market. We call our style of investing - Relationship Investing or Activism with Chinese Characteristics.

### **One potential new investment for SPCAF is:**

**PROJECT PAPER** - The top deal in our pipeline is an investment in the world’s third largest (specialized) paper manufacturer. The business is attractive, and extremely clean

and focused, and management is very much our partners with specific equity incentive plans being discussed. Being the largest tax payer locally, the local governments are critical. They have shown their support for our involvement as they see us internationalizing the company and potentially bringing prestige to the region.

The transaction is around USD25M and we would be investing at an approximate 25% discount to the market and at a discount to the intrinsic value with no future dilution risk from any share conversion as it has already been completed. We are presently negotiating a term sheet and if we agree on the terms it may be announced in Q4. Approvals may delay the actual investment into Q1 2007.

Please contact Kenneth Kong at (212) 520-2314 or Ken@steelpartners.com with any interest or questions for the final close.

For additional information or to view our full letter to investors for SPCAF, please see “Appendix A Steel Partners China Access Fund” on our website, [www.steelpartners.com](http://www.steelpartners.com). To obtain user name and password, please contact Lauren Isenman 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 and enjoy every minute. In fact, we are having more fun now than ever and the team is the strongest and deepest we have ever had. Also, we have a local presence in Europe and Asia, and therefore a global reach.

Sarah Castleman, who has been with Steel Partners for two years, is on maternity leave after giving birth to a healthy son, John Russell Weinberg Jr. in September. Congratulations, Sarah.

We are also pleased to announce the addition of Leron Kishoni and Aaron Ratner. Prior to joining the Steel Partners accounting team in September of 2006, Leron worked in the audit department at a branch of BDO Seidman in Denver for three and a half years. Leron moved to New York City in September 2005 to work in the Internal Audit department of VNU, where she participated in operational audits for VNU companies in the Americas and Southeast Asia. Leron received a Bachelor and Masters in Accounting from the University of Denver in 2002 and received her CPA license from Colorado shortly thereafter.

Aaron Ratner joined the Steel Partners marketing department in September 2006. Aaron graduated in 2006 from the Sloan Masters Program at the Stanford University Graduate School of Business. Prior to that, he spent five years in Hong Kong working for Simon Murray & Company, an Asian investment and advisory firm, where he participated in sourcing new investments and advising Western clients on China and Japan entry

strategies. Aaron began his career in the technology investment banking practice at Merrill Lynch in Silicon Valley. He graduated in 1997 from the University of Pennsylvania, in Philadelphia, and Jochi University, in Tokyo.

We are presently fully invested and are working on greatly increasing our investment in six portfolio companies and several new investment ideas. These investments range from providing new capital for acquisitions, increasing our ownership through the market, rights offerings and public to private transactions. If these investments come to fruition we will be investing over \$500 million dollars at very attractive valuations. Based on these anticipated investment capital needs, we will be opening to accept capital at the end of the year.

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

Respectfully,

A handwritten signature in cursive script, appearing to read "Warren Lichtenstein", with a long horizontal flourish extending to the right.

Warren Lichtenstein

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