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March 20, 2009

Mesmerized by False Perception

Few would deny that our country is in serious economic straits. Our citizens are losing their jobs, our companies are struggling and our government is entering new terrain as it seeks to combat the downturn. One would think that, at this time of crisis, we would be focused on the core issues confronting us, but, instead, we have been pulled from one distraction to another, delaying consideration of much more serious matters.

To cite a few examples:

- Earmarks. For days, the attention of the media and the politicians was aimed at denouncing the 8,000 odd earmarks contained in the omnibus spending bill. No matter that they totaled under $8 billion of a $410 billion bill (1.9%) or that the earmarks direct rather than increase overall spending. The overwhelming belief seems to be that earmarks are *per se* bad and should be eliminated.

  That view would surprise the Founding Fathers. They specifically entrusted the Congress with the power of the purse, and we have had earmarks since then. Properly used, the earmark can result in appropriations to address meritorious local projects that might not be of interest to Executive Branch bureaucrats or to overturn decisions by those bureaucrats that Congress opposes. There is certainly nothing undemocratic about that process.

  This is not to say that the "pay to play" style of earmark legislation should be permitted. But earmarks are no different from other legislation in that regard, and adopting rules to require transparency for all proposals for special appropriations would go far to cure the problem. But the breathless denunciation of all earmarks probably wastes more time than it is worth and causes more, not less, politicization of the appropriations process.

- <u>Mortgage support</u>. Another theme that diverts our attention is the strong objection from some quarters to any relief for mortgagors in trouble. "Why should people paying off their mortgages support those who can't?" There are two answers to that question. First, helping people in trouble, even if they have only themselves to blame, is pretty common in our society. We send search teams to find lost hikers who ignore posted warnings; we send an ambulance for a drunk driver who wraps himself around a tree. Secondly, unlike helping the lost hikers and the drunk driver, rescuing imperiled mortgagors – helping them to become solvent and prevent foreclosure – can aid their neighbors, their communities and our entire economy.

  Our relief programs should not help speculators or people who cheated to get their mortgages. Even with those exceptions, a lot of people are left who just need some breathing space to avoid losing their homes. It would not be in keeping with our traditions to deny them that help solely because there are others who don't need it. It would also be cutting off our nose to spite our face.

- <u>AIG and UBS</u>. The outrage over the AIG bonuses has choked the airwaves and opinion columns in recent days. Government officials are demanding that the recipients be publicly identified, even though they have been subject to death threats. The Congress is considering a confiscatory tax on their compensation, and one Senator has suggested that they kill themselves.

  What did they do to deserve all this? Apparently, last spring, when AIG tossed out the bad actors who brought the company to its knees and decided to close its financial products division, it asked some people to stay temporarily to do the actual winding down. In return, they would be compensated on the basis of their 2007 compensation and probably on how well things were done. So far, they have unwound $1.1 trillion of the $2.7 trillion of contracts outstanding a year ago. Some employees have finished their work and left the company; most of the rest will leave when they are done. According to AIG's new dollar-a-year president, these people are critical to the orderly dissolution of the business and, hence, to the economic interests of the taxpayers, who own 80% of the company.

  Whatever one thinks about this scenario or the worthiness of the AIG bonus recipients, it is pretty clear that the ruckus surrounding this incident is filled with hyperbole and bloviation, again taking our eyes off the issues we should be confronting.

By contrast, consider the activities of the Swiss-owned bank, UBS, which have received a lot less attention than AIG. Last month, UBS admitted to conspiring to defraud the IRS and paid $780 million in settlement of the investigation. As part of the settlement, UBS also agreed to identify customers who used its offshore accounts to evade U.S. taxes. There has been a good deal of arguing about how many such individuals are involved, but the IRS wants to see the names of about 50,000 account holders. According to prosecutors, the scheme enabled U.S. taxpayers to hide $20 billion in assets, avoiding $300 million in taxes annually for five years. However, the investigation is widening. (Assuming that few would undertake this kind of scheme unless they could avoid at least $10,000 in taxes, 50,000 of such individuals would yield at least a half billion dollars per year of unpaid taxes.)

Oh, by the way, UBS was the fifth largest recipient of (government supplied) funds paid out to AIG's counterparties – to the tune of $3.3 billion.

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We began these letters just over five years ago, aiming to communicate with our customers during what we called "turbulent and sometimes chaotic" market conditions. A key part of that discussion was a candid assessment of Corey's ability to navigate those tempestuous waters. We think that today's market warrants a similar report.

Like most of our colleagues in the steel industry, Corey has been facing extreme pressures from the rapid decline in product pricing, from huge decreases in demand and from the need to stanch cash outflows. Dealing with those problems has required painful personnel decisions and a good deal of belt tightening. I cannot be happy about these measures, since they cause hardship to many of our valued employees. However, I can report to you and to them that we are now solidly positioned to ride out the storm without compromising product quality or customer service and to emerge ready to prosper when the sun shines again.

Now, for some specifics on costs:

- Scrap and Pig Iron. Scrap has continued its downward trend. Number 1 dealer bundles and #1 busheling (Chicago) were at $190 and $195 per mt respectively, off $25 from last month. After three months of sparse sales of Brazilian pig iron, the sellers have apparently given up their refusal to reduce their price and the product is now at $270 per mt, down $105.

- Natural Gas. We are seeing the lowest prices in more than six years. The Nymex contract price is now $3.87 per mcf.

- Ocean Freight. After showing a bit of life last month, the Baltic Capesize Index was down 26% to 2831.

- Exchange Rates. The dollar has weakened recently. The euro now stands at $1.37, up ten cents from last month, and the pound is at $1.46, up four cents. The Canadian dollar was up a penny, at 81 cents.

Please give us your thoughts. This letter will be posted on our website, www.coreysteel.com and on the international site, www.steelonthenet.com.