

Hayes Manufacturing, Inc.

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To: Our Valued Customers

From: Hayes Manufacturing Management

RE: RAW MATERIAL SURCHARGE

As some of you may already know, the manufacturing sector is experiencing crippling price increases from the steel and aluminum industry due to the following factors:

1. Scrap steel prices: this is the primary ingredient used to make new steel. Scrap prices have reached historic highs.
2. Energy costs
3. Transportation costs: the high cost of gas and diesel has put a strain on just about every industry.
4. Pig Iron: this is iron ore converted into iron form and the price has doubled in the past year.
5. Coke: this is an ingredient used in the steel manufacturing process and the price has doubled in the past year.
6. Devaluation of the dollar: Because of the current value of the U.S dollar, U.S. steel companies are shipping their inventory to other countries where there is high demand. Approximately 4 years ago, about half of the steel purchased for U.S. manufacturing was from overseas sources. Due to the weak dollar, U.S. steel mills are not importing steel and this has contributed to the overall steel shortage.

Our raw material suppliers are working closely with us to do what they can to give us the best possible pricing. They are working in a volatile market right now and, in some cases, can only quote firm prices for an hour at a time. Steel mills are canceling contracts without any notice and are refusing to honor contracted pricing. Prices are expected to climb in May and June and are projected to peak in the next quarter.

Because we are facing 50% price increases for our raw materials, we will be forced to implement a raw material surcharge for certain products. The surcharge will be added to future quotes, as well as purchase orders (you will receive a faxed confirmation that will include the surcharge).

Please understand that this has not been an easy decision. We regret any inconvenience to you or your customers, and hope that we can go back to business as usual in the very near future. In the meantime, we appreciate your support and, as always, if you have any questions or comments, feel free to give us a call (231) 879-3372.