



April 2007

### Market Update

## Scrap Prices Take Another Big Jump



After more than a year of relative stability in the market for scrap iron, prices that foundries must pay for this raw material have taken a dramatic jump, impacting producers and consumers alike. The increase comes as a result of a "double whammy," in the form of increased demand in Asia and a reduction in worldwide supply of pig iron, as plants shut down or reduce capacity in the wake of weather and other unforeseen problems.

The added demand for scrap comes as major international producers of pig iron are forced to cut production. Since manufacturers that normally use pig as a raw material are forced to use scrap instead, the demand for scrap, and subsequent price, has skyrocketed in recent months.

ramped down. A legal dispute over loading rights at Vittoria, a large port in Southern Brazil, has also created nervousness in that market.

Another major producer of pig, Russia's Tula pig iron complex, has been forced to cut production dramatically, due to furnace problems.

"The market for scrap iron is so tight worldwide that when a pig iron plant in Brazil sneezes, iron foundries around the world catch a cold," says AB&I's Kip Wixson.

"We're doing everything we can to mitigate these sharp increases," continues Wixson, "but, frankly, we're not sure where things are headed."

So, what's behind the slowdown in pig production? Brazil, a major exporter of pig iron, has been forced to limit production as a result of a charcoal shortage, due to a particularly rainy season. Charcoal is used in the production of pig iron, and as less charcoal is available, production of pig is

Just how long these pig shortages, and subsequent scrap price increases, will last is anybody's guess. The rainy season in Southern Brazil is almost over, and the Tula plant will surely come back to full strength at some point, but exactly when is impossible to tell.

"Our scrap dealers tell us to expect these higher prices for the next few months, at least," says Wixson. In the meantime, AB&I is doing everything possible to minimize the impact these price increases will have on customers.

"We like to give the market as much advance warning of any price adjustment as possible," said Wixson, "and we're not planning any big announcements just yet."

Customers are encouraged to stay in close touch with their AB&I field sales representatives to keep abreast of changing circumstances.

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## Perspective

### Who Would Think This Subprime Mortgage Business Could Cause Such Havoc?

*I'll Give You a Hint: Me*

The headlines are full of news about the giant dump low-quality mortgages are taking across America. It seems that the past several years have seen lenders willing to lend mortgage money to anybody with a pulse, without much regard to the borrower's ability to pay the money back. In fact, we've all been bombarded with emails and TV ads telling us that we can borrow a million dollars today and just repay four dollars and ninety five cents a month. Challenged credit? No problem. Bankruptcy? Don't worry about it. Need money, we'll give it to you. That message sounded great to millions of borrowers and homebuyers across the country. The only thing is, too many of them didn't get the message that that mortgage was only cheap this year. Next year, your payment is twice your monthly income.

The salvation to most borrowers up to now was that the value of their home was increasing, so next year when the payment goes up, a quick refinance into a cheaper loan will solve the problem. Only now, home values are going down instead of up, many borrowers find they can't swing the payments, lenders don't want to refinance a risky borrower, and many are facing foreclosure as a result. So many, in fact, that some economists have predicted that the mortgage meltdown in this subprime market could impact the economy as a whole. With hundreds of thousands of homes suddenly coming onto the market because sellers have to sell, prices could be pushed down even further and more quickly than expected. The sound of champagne corks popping when these borrowers first closed on their homes has been replaced by the padding of worried feet pacing the floor at night.

Some commentators have cried out, "Where did this crisis come from?" To these folks, this boondoggle came out of nowhere, and has taken the financial markets by surprise. Well, not really. Many observers have been warning about the risks of lending large sums to poor credit risk borrowers for quite some time. Take me, for

example. It just never seemed to square with reality that some guy making seventy grand a year could buy a half-million dollar house and keep it for very long. When commercials and billboards were extolling the availability of alternative loans to people who couldn't qualify for conventional real estate financing, I had a feeling it was only a matter of time until the piper wanted to get paid. "Creative financing products," like negatively-amortized loans, graduated payments, and variable-rate mortgages seemed to invite abuse and, guess what? I was right.

Not that I'm some financial genius. When I bought my first house back in the Pleistocene era, I had to come up with 20% down and just barely qualified for the loan (thanks to my father-in-law). The bank told me the payment couldn't exceed 25% of my net income, and they did everything but a full cavity search to check me out. Those lending policies forced everybody to buy a house they could afford. When people lost their homes to foreclosure, it was because something bad happened to them, like a job loss or messy divorce, not because their interest rate jumped because the 'teaser' rate timebomb that got them into their McMansion ran out of fuse.

I hope the impact of the mortgage mess doesn't spread very far. AB&I will sell more pipe if the economy stays strong, and building, at least on the commercial side, remains robust. Experts disagree on the near-term effects. The fact that so many lenders have been burned so badly, however, just might portend more responsible times ahead, and that would better for all of us.

2007 is a banner year. Why? Because we all got until April 17, not 15, to file and pony up our taxes. I'm sure the benefits of this late filing deadline have changed everybody's life, created more wealth, and left us all with a more benevolent feeling toward our government. For many of us, the date in 2007 where we start working for ourselves instead of filling Uncle Sam's coffers hasn't even come yet; everything we've made so far

this year will go to taxes. But at least we get our money's worth...

Speaking of taxes and money, does anybody have any idea where the money is going to come from for Baby Boomers to retire? Recent studies have shown less than 20% of Boomers have a funded plan for retirement, that most are relying on Social Security and continued employment to fund their Golden Years. Even the employees at major corporations are feeling the pinch. Gone are the days of defined benefit plans, where the company funds a pension for their employees to draw on in retirement. Those companies with retirement plans have been forced to adopt 401k or similar "matching" plans that force the employee to contribute to get any benefits. While necessary, the abandonment of traditional pension plans has left many workers out in the cold, unable to contribute enough to their 401s to build any meaningful income for later in life.

One exception to the retirement problem is public sector employees. State and federal workers, cops and firemen, and even some local government employees have retirement plans that will take care of them forever. Many of these workers retire in their 50s, with 70-90% of their working income guaranteed for life. Where does this money come from? You and me, pal. Even the poor guy with no retirement plan at all gets to contribute to the cushy income assured to these government workers. Some taxpayers are beginning to question the validity of a tax plan that forces them to pay into somebody's else's generous retirement when they can't even contribute to their own. Like the mortgage meltdown, this scheme will come to a bad end. As Boomers reach retirement age, many more will question why their 65 year old neighbor has been retired from the state for a decade, drives a new car and manages to take two cruises a year. Like cheap mortgages, this can't last forever.

Mark my words.

# Leonard Haraguchi Retiring

*Versatile Team Member Ends 35 Year Career at AB&I*

For many AB&I customers, the name Leonard Haraguchi doesn't ring any bells. He's not in sales, and his name doesn't make the pages of this newsletter very often. That's the way Leonard likes it. "I just keep a low profile around here," he says.

The truth is, Leonard has been keeping that "low profile" at AB&I since 1972, serving in a variety of positions, all with distinction. Leonard retires from AB&I after 35 years on June 1.

Leonard started in the Customer Service Department, back in the day when AB&I made plastic pipe at plants in Northern California and Turner, Oregon. In addition to his customer service duties, Leonard got a taste of the purchasing job he would later hold at AB&I for decades. "I bought resin for the Turner plant," recalls Leonard.

When AB&I got out of the plastic pipe business, Leonard went back to the cast iron side, doing production scheduling and inventory control. "I would make sure that the products customers were buying were always being made in the right quantity, and that we didn't get caught with too much of anything."

From there, Leonard moved into purchasing, buying everything from paper clips to big-ticket scrap iron. To prepare for the job, Leonard attended purchasing classes at Cal State Extension, learning everything he could about his new role. As AB&I grew, Pauline Aragon was added to the purchasing department, allowing Leonard to focus exclusively



on buying scrap, the raw material used in the production of everything AB&I makes. He stayed at that job for some 18 years, keeping the foundry well stocked with the iron needed to feed the furnaces.

Buying scrap in those early years was a lot different than it is today. "We didn't need nearly as much as we do now" says Leonard. He recalls dealing with local scrap dealers, and dealers from Colorado, Nevada and Arizona. As AB&I grew, the amount of scrap needed grew, too, so Leonard was forced to look

nationwide, and even into Canada, for enough scrap to keep the plant going.

"Finding enough scrap of the type we need is always a challenge," says Leonard. Quality is a big concern, and the scrap must be of a certain size and not contaminated with other metals that could reduce the serviceability of the iron. The rapport that Leonard has established with these dealers has often made the difference between getting or not getting the product he needed. "It's a pain for these dealers to separate out the iron in the way we need it," says Leonard, especially when they can ship unseparated iron to China or India without breaking a sweat.

The entire AB&I team thanks Leonard Haraguchi for his years of "low profile" service to the foundry, and wishes him well as he travels, plays golf, and works in his garden. He will be missed.

## Murphy Wins Football Sweepstakes

Congratulations to William Murphy of Desert Industrial, Canyon Country, CA, for getting 100% correct answers on our February Super Bowl trivia quiz. Not only did he know which current NFL division is the home to the most Super Bowl champions (NFC East), but he also knew who the first player ever to win a Super Bowl as both a player and a coach was (Tom Flores). We asked some pretty tough questions on this quiz, and William knew them all. He's clearly a true football fan!

As the winner of this month's quiz, William will get a free AB&I golf shirt. Thanks for entering our contest, William, and congratulations on a job very well done!



## Marlow Catches Us in an Error!



A few months back, we ran a trivia quiz in which we asked the question, "What was The Lone Ranger's horse's name?" We gave credit for the answer, Trigger. All was well until John Marlow of US Engineering Company sent us an email recently informing us that the correct answer to the question is, "Silver." Trigger, we were reminded, was the name of Roy Rogers' horse.

When we saw his note we immediately knew that he was right.

For taking the time to drop us that correction message, we will be sending John a free AB&I golf shirt.

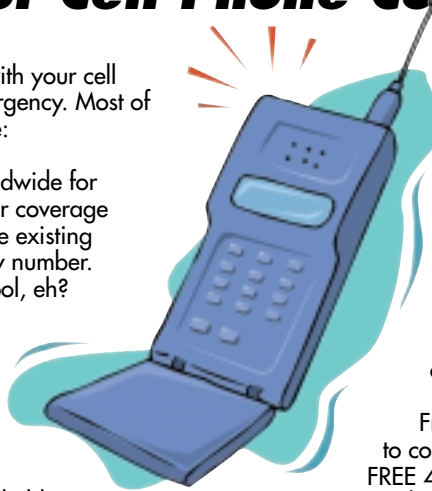
Thanks, John!

## Five Things You Never Knew Your Cell Phone Could Do

There are a few things that can be done with your cell phone that could really help in a major emergency. Most of us don't even know about them. For instance:

**Emergencies:** The emergency number worldwide for mobile is 112. If you find yourself out of your coverage area, dial 112 and the mobile will search the existing network and dial the appropriate emergency number. This works even if your keypad is locked. Cool, eh?

**Locked Cars:** Does your car have a remote keyless entry? If so, and if you lock your keys in your car and don't have your remote, call someone at home on their cell phone from your cell phone. Hold your cell phone about a foot from the car door and have them press unlock with the remote held close to their cell phone. Presto, your car door will unlock.



**Hidden Battery Power:** If your cell battery is very low and you don't have your charger handy, press the keys #3370# and your phone will show a 50% increase in battery.

**Stolen Phones:** To check your phone's serial number, key in \*#06#. A 15 digit number will appear. Write this down. If your phone is stolen, call your provider and leave them this number. This will block the phone even if the thief changes the SIM card.

**Free Directory Service:** Cell companies charge \$1 to \$2 to connect you to directory information. If you dial 800-FREE 411 you can get directory information at no charge. Program this into your phone now.

### Just for Fun...

#### Jay Who?



OK, sports fans, answer this. Who was the first winner of the Heisman Trophy? If you said, "I dunno," you'd be wrong. If you said, Jay Berwanger, you'd get the prize.

In addition to being the first Heisman recipient, Berwanger was also the first player ever to be drafted by the NFL. He played for the University of Chicago, and was renowned for his versatility. He called plays, ran, passed, punted, blocked, tackled, kicked off, kicked extra points, and returned punts and kickoffs. He was known as the "One Man Team," because he could do so much, and was also known as the "Man in the Iron Mask," because he wore a special face guard to protect his twice-broken nose.

He was respected by his team mates and opposing teams as well. Of the 107 opposing team players he faced during his senior year, 104 said he was the best halfback they had ever seen.

Berwanger was the only Heisman winner ever tackled by a future president of the United States, Gerald Ford.

When drafted by the Philadelphia Eagles in 1936, his signing rights were sold to the Chicago Bears. But when Berwanger asked for \$25,000 for two years, Coach George Halas refused and Berwanger entered the world of business instead.

Jay Berwanger died in 2002 at age 88. For a more detailed story of Berwanger's life, go to [www-news.uchicago.edu/releases/02/020627.berwanger.shtml](http://www-news.uchicago.edu/releases/02/020627.berwanger.shtml).

#### We Can Only Go Up From Here



It's easy to understand the word UP. Or is it?

When we awaken in the morning, why do we wake UP? At a meeting, why does a topic come UP? Why do we speak UP and why are officers UP for election? And why is it UP to secretary to write UP a report?

We call UP our friends, brighten UP a room, and polish

UP the silver. We warm UP the leftovers and clean UP the kitchen. We lock UP the house and fix UP the car. People line UP for tickets, stir UP trouble, work UP an appetite and think UP excuses. To be dressed is one thing, but to be dressed UP is something special.

And this UP is confusing. A drain must be opened UP because it is stopped UP. We open UP a store in the morning, but close it UP at night.

We seem to be pretty mixed UP about UP. To clarify the word, we looked it UP in the dictionary. The definition takes UP about 1/4 page and adds UP to about 30 ways the word can be used. If you're UP to it, you could think UP all the ways UP is used. That could take UP a lot of time, but you could end UP with over 100 more ways the word is used.

When it's threatening rain, we say it's clouding UP. When it stops, it clears UP. We give UP!

Fess UP - you like this. One could go on, but we'll wrap it UP because our space is UP.