

July 22, 2008

Dear Rich,

Over the last several months, many factors have come together almost simultaneously to create a sort of "Perfect Storm" for the disposable gloves market. This has resulted in steadily rising costs for all disposable gloves (and most reusable gloves). Unfortunately, we have to pass along these cost increases to our customers in order to remain profitable. Here are some of the major reasons behind the price increases you may have already received or will soon be receiving from The Safety Zone.

As you are most likely aware, the price of oil has doubled over the last year. Vinyl, nitrile and poly gloves, as well as polypropylene spunbond apparel, are all petroleum-based products, so our raw material costs have skyrocketed. Of course, the high price of oil has also resulted in much higher freight rates, both from the factories overseas to our U.S. warehouses, and from our warehouses to our customers' facilities.

Raw latex costs are also way up. This is due to consecutive poor harvests on the rubber plantations, plus the fact that glove manufacturers are now competing with auto tire manufacturers for the limited supply of latex, since many tire makers have gone back to natural latex because the cost of synthetic latex (petroleum-based) is so high. Most recently, the Malaysian government deregulated fuel prices (to run the factories), which resulted in another substantial increase to Safety Zone.

Other materials that we use in our product line are also higher in cost. There has been a shortage of leather hides due to a disease which affected Asian cattle, and for now most of the leather gloves made in China are being made with much more expensive hides that the Chinese import from South America.

Additionally, in the past 9 months, the value of the U.S. Dollar has fallen by more than 7.5% against the Chinese currency and almost as much against the Thai and Malaysian currencies. All of our vinyl, plus most of our nitrile and poly are made in China, and our latex is made in Thailand or Malaysia. On top of this, the Chinese government has eliminated the 5-10% rebate they used to pay factories making gloves for export, which translated into another price increase for Safety Zone and our competitors.

New labor contracts are now being negotiated in China to provide factory workers with socio-economic programs similar to our Social Security. If these programs are put into effect, all U.S. companies manufacturing and/or importing from China will be faced with more increases going forward.

To make matters worse, the recent earthquake in China has largely cut off the supply of coal to the glove factories, drastically reducing their production capabilities. Hours are already limited at many production facilities because of the government's program to reduce air pollution in advance of the August Olympics. As a result, the factories cannot keep up with demand and most shipments are significantly delayed.

Thank you for your understanding in this matter. Please feel free to call me if you would like to discuss the increases or if you have any questions. Our business with AmSan is greatly appreciated.

Best regards,

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