

## Energy Surcharge Information

We have all had to deal with increased energy costs in various ways. To Systec, energy cost represents a very significant cost of segment manufacturing and it is increasing. We also are aware that electric rates, which have been held artificially low through regulation, will be deregulated shortly. When this happens it could cause tremendous increases in all energy costs.

We are at the point that we must consider new and innovative methods of pricing our product in relationship to energy consumption. In order to obtain exact energy cost we installed individual meters on all of our high energy consumption equipment. We then documented that consumption and calculated the rate that is required to operate each individual piece every time it was utilized. Those figures were compared to our invoiced costs of energy and categorized by order and lot which then gave us an accurate percentage cost per item and per lot. This study was completed after 8 months to obtain long term averages. The integrity of our figures were re-checked and we now can determine specific changes in our energy cost by order, by lot, or by utilization.

Our results have been tabulated and the 8 month results showed cost fluctuations between .05% and 3.21%. These fluctuations have been explained to us by our utility supplier as "demand fluctuations caused not only by us but other users".

Since there is a fluctuation in invoiced energy costs monthly we knew we had to construct a formula that not only reflected true cost but a formula that would not require monthly increases or decreases in segment prices. That would be impractical, unworkable and just a plain nuisance. We have decided to apply a monthly percentage surcharge to each invoice predicated on that specific production run. We have negotiated with our utility carrier so that they would submit current figures to us so as to always be concurrent during a specific period of usage. We have also implemented firing schedules to take advantage of more economical demand times charges at the height of our consumption.

We will be commencing this portion of our pricing structure by October 1, 2007. It will be a line item on the invoice and it will reflect the percentage cost for that specific time slot. We do expect this to remain fairly constant through the end of this year but it will be adjusted if necessary. Our goal is cost contain between .05% and 1.2% per order. We will be monitoring this monthly to assure the integrity of our figures.

We feel this represents the fairest method of price containment. We will make every effort to continue effective cost management and we welcome your thoughts or suggestions in this area. We apologize for the inconvenience and we hope that you will attempt to understand our position as we continue to try and understand yours.