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Registration Effective August 27th and Now Operational

"A TIME FOR THE TOES," A STUDY OF THE CORRELATION BETWEEN THE PERFORMANCE OF THE PITTSBURGH STEELERS AND THE RELATIVE PERFORMANCE OF STEEL STOCKS

- My dear friend Peter Marcus, who employed my nephew Eric one summer back in 1991 and whose media mogul son Drew Marcus employed Eric as a research associate/radio analyst for about six years, theorized to me once roughly 25 years ago that a close correlation existed between the performance of the Pittsburgh Steelers and the relative performance of steel stocks.
- We must confess a certain initial doubt. The steel industry did fairly well in the 1950s and 1960s, and the Steelers did not. In the 1960s our family had University of Pittsburgh football season tickets, and a Pirates game was a considerable treat.
- However, our econometric studies indicate improved correlation, R-squared and Durbin-Watson's suddenly near 4 pm on Sunday December 23, 1972 when Franco Harris touched the ball with 10 seconds left.
- Certainly the Super Bowl victories in 1974 and 1975 coincided with the then greatest period ever in steel stock performance, steel prices, scrap prices and earnings. While a mild earnings rebound developed in 1978 and 1979, steel stocks did little as Super Bowls XIII and XIV joined the IX and X Lombardi trophies in Pittsburgh. In 1980 the team theme became "One for the Thumb," but it took 25 years to deliver the fifth Lombardi in Super Bowl XL in 2005.
- Alas, hard times befell the Steelers. Joe Greene was never the same after a pinched nerve in the neck/shoulder region. Concussions forced Lynn Swann into early retirement. Franco Harris and Jack Ham slowed down. A too tightly retied elbow ligament ended Terry Bradshaw's career in 1983 as he longer could even throw, causing a postseason loss to the Chargers, and a turf toe took away Jack Lambert in 1984. Dan Marino's Dolphins blew away the Steelers in the 1984 AFC Championship Game. The 1982-86 period turned out to be the worst period ever in the history of the steel industry with EBIT basis losses averaging \$91 per ton and a negative 16% integrated industrywide EBITDA ratio in 1982.
- Terrible events continued. Bubby Brister fumbled a snap with three minutes left in Denver as we sat in the stands, and the first Persian Gulf War and recession followed. In 1995 Neil O'Donnell threw timely interceptions into the waiting arms of Cowboy defender Larry Brown in Super Bowl XXX, and metals prices largely peaked in 1995 for the decade. Kordell Stewart forced a

pass intended to Yancy Thigpen into triple coverage in the Denver end zone with three minutes left in the second-quarter in the 1997 AFC Championship Game immediately beneath the seats where Charles and I sat, when Kordell had a completely clear field should he have chosen to run for the TD, Elway led another “drive” for a late second-quarter TD, we lost narrowly and it caused the Asia Crisis. In the 2001 AFC Championship Game the refs missed a holding penalty (literally a two minute wrestling match between the Steeler right offensive tackle and a Patriot left end or linebacker) on the Troy Brown punt return TD and the refs missed a forward lateral at the Steeler 45 on the blocked field goal TD as Charles and I helplessly watched in cousin Mick’s seats in Heinz Field. The events were so clearly in error that the NFL changed several rules as helplessly the Steeler coaches had used two challenges on other plays, including (a) restoring a “coaches challenge” if the challenge was right in prompting a ruling reversal, (b) requiring key plays to be officially reviewed in final minutes and (c) a rule change that a blocked field goal will be considered a dead ball. Yet another recession coincided after the Sept. 11th tragedies, and upwards of thirty steel-related companies entered bankruptcy as a clear result of the poor officiating.

- The 2004 13-0 regular season Roethlisberger rookie year vaporized as New England coaches outfoxed the Steeler safeties and the rookie QB floundered in yet another tragic AFC Championship game (fortunately cousin Mick gave his seats to his parents that frigid night and we watched on TV at home), but the steel industry began its best period ever. In 2005 the Steelers finally won “One for the Thumb” in Super Bowl XL (just 25 years behind schedule), and steel profits have been robust now for four straight years. In 2006 Ben got injured three times and nearly died, and domestic inventories and imports made record highs slowing the course of steel share appreciation though many companies kept it going.
- In 2007 the Steelers installed a new head coach, ousting the underperforming fellow that hosted five AFC Championship Games without a ring and several prominent #1 seeds such as the 1992 opening round lopsided loss to Buffalo. The new coach appears meticulously dedicated to detailed execution, makes every veteran compete every week to keep his position, listens to smart folks like Dick LeBeau and seems in control.
- Having won a Super Bowl ring for each of the five fingers, the Steelers created a mascot in 2007 rather than a catchy season theme. We believe it is “A Time for the Toes” and we are highly encouraged. Peter Marcus’ theory appears supported as distributor inventories bottom, the dollar weakens, imports are not too much, \$1 trillion banking system injections and low rates stimulus, the U.S. may spend or waste less in Iraq in the future and the world economy remains firm. We hope the Steelers bring home five more Lombardi trophies for “Each of the Toes” and steelmakers keep generating cash.
- Yes risks exist. Dollar weakness could create capital flight, high interest rates and a resulting recession in a “third world” sort of fashion. Sheet capacity expansions loom at a 14.4 million ton level. Chinese consumption could ease as Olympic preparations wind down, causing higher Chinese exports. Autos,

appliances and housing stink, and high oil prices threaten to worsen things with inflation. Steel import controls may prove evadable. Worse yet, injuries, bad refs and very formidable teams in Baltimore, New England, San Diego, Indianapolis or Houston loom as obstacles.

- We will continue to watch the injury report, the development of budding undrafted free agents, real interest rates, oil prices, construction activity and capacity developments.

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Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d’Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thypin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or “due diligenced” for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

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John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny

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Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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