



CEI Insight

August 2009

A newsletter for our valued customers from Coating Excellence Int'l

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CEI Certified to Chain-of-Custody Standards



Coating Excellence is pleased to announce it is now Chain-of-Custody (COC) certified with the Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) and Programme for Endorsement of Forest Certification (PEFC). CEI was COC certified by independent third party organizations who are accredited by the FSC, SFI and PEFC.



Good for you. Good for our forests.™



PEFC/29-31-152

Chain-of-Custody tracks paper products throughout their life cycle beginning with proper forestry management all the way to consumption by end-users. As a Chain-of-Custody certified manufacturer, CEI meets strict tracking requirements for ensuring that paper products sold as COC certified come from well-managed forests and recycled paper.

Customers are now able to request the base paper used in the manufacturing of their CEI-supplied products is certified to the standards of one or more of the above forest management agencies. CEI's unique certification codes will be included on all outbound certified products for identification and tracking purposes.

CEI's Chain-of-Custody certification numbers are as follows:

- Forest Stewardship Council (FSC)—SCS-COC-002521
- Sustainable Forestry Initiative (SFI)—NSF-SFICOC-C0023674
- Programme for Endorsement of Forest Certification (PEFC)—NSF-PEFCCOC-C0023674.

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Please contact your CEI sales representative to request the base paper used in your packaging is sourced from COC certified paper, and to have certification logos incorporated into your product's artwork.

Woven Bag Reuses

If you have a pet, there's a good chance you have purchased pet food in one of CEI's SuperTube woven bags. If you're like most people, once the pet food runs out, you throw the bag away and purchase a new one, without realizing the possibilities for reusing these durable bags.

- Garden plant protector
- Garden walkway
- Bulb/tuber storage
- Tree protector
- Winter salt and sand storage
- Auto carpet protection
- Disposable drip pan/drop cloth (for oil changes, painting, etc)
- Heavy duty reusable storage
- Work surface protector
- Storage of seasonal sporting items
- Picnic table cover
- Yard waste collector



If you have other ideas, send them to ceiinsight@coating-excellence.com. We'd love to hear from you!

System Upgrade Update

Coating Excellence is nearing completion of a new enterprise computer system upgrade, with a scheduled "Go Live" date of September 8, 2009. As a result of the upgrade, CEI's systems will be better aligned with CEI's business strategy and will be able to fully support future growth plans. CEI stakeholders can expect to see a variety of changes and improvements as a result of the system upgrade. As a CEI customer, you may be affected by the following new procedures and system features that will soon be in place. These additions will have a very positive effect on your experience working with CEI.

Roll Numbering System

Instead of a simple sequential numbering system, CEI's

new roll numbering system will involve a significant amount of useful information being encoded in each roll number. All roll labels will include the date, machine center, work order number, set off number, and lane associated with a particular roll. This will result in improved roll traceability and timeliness in responding to quality complaint investigations. It will also help identify trends associated with machine runs, and help with managing inventory levels.

Scheduling System

CEI will be unveiling a new scheduling system that will result in improved on time shipments to customers. The system will incorporate incoming raw materials and integrated machine schedules to ensure the earliest possible ship date to meet customer needs.

Production Software

CEI's new production software will allow for real time data collection on the production floor integrated into machine control monitors. This will minimize manual entry of data as data will come from machine counters, scales, and computers minimizing the potential for manual errors and improving accuracy of data reported to customers.

Shipping Board

CEI employees are now able to view the status of all shipments in real time. This helps ensure customers receive their orders on time, or are at least able to be updated as soon as possible if issues arise with a particular shipment.



CRM Program

CEI's new customer relationship management (CRM) program is now complete and has been integrated into the daily work routines of many employees. The CRM program gives CEI a complete view of its customers while allowing for easy access to all customer information should any issues arise. Ultimately, the program gives CEI the ability to provide the best possible service to its customers.

As a result of the upgrade, CEI will not ship September 4, 2009 through September 7, 2009 due to downtime required for the system upgrade. Please contact your CEI Account Executive to ensure your product shipment needs are met.

ISO Update

Coating Excellence is well on its way to becoming

certified to the ISO 9001:2008 standard for its quality management system (QMS). A designated team within CEI is going through all standard operating procedures (SOPs) to ensure they are accurate and updated. Internal audits are taking place to ensure employees are in compliance with all SOPs, and training is occurring as needed. SOPs have been added to "skill block" books for production employees to make sure employees are referencing company SOPs when performing specific tasks.

Certification is scheduled for December 2009. CEI looks forward to being able to provide its customers with a quality system that is measured against worldwide standards and the assurance that their product requirements and expectations will consistently be met. CEI's goal is not only to achieve ISO certification but also to improve CEI's world-class quality results.

Economic Update August 2009

There is optimism that the end of the recession is here. Unfortunately, the end of the recession is of much more significance to economists than it is to consumers and businesses. Ordinary citizens see little change. Unemployment remains high, incomes are stagnant, loan defaults are growing and businesses and consumers remain reluctant to spend or invest. At best we can say the end of the recession means that the situation has stopped getting worse. Some weeks the news is good, some bad. Month to month, strength or weakness seems to be based on what happens to inventories.

During the second quarter businesses continued to reduce costs slashing hours worked. Claims for unemployment have slowed, but it is unclear how much of this reduction is due to people running out of jobless benefits or getting disillusioned and stopping looking for work. The silver lining is productivity took a 6.4% jump due to increased output with less labor. This bodes well for the economy once things start to improve. Gains in productivity will give the Federal Reserve time before they need to increase interest rates to forestall inflation. The one bright spot appeared to be consumer spending, but after adjusting for "cash for clunkers" even this area remained depressed. For example, Sears' second quarter sales fell 8.6%. In addition, no one knows what will happen after "cash for clunkers" ends. If this has moved up car demand, the next few months may be dismal for car sales.

The big risk remains inflation. Over the last year we have seen unprecedented government intervention. The government has spent huge sums of money to try and buy ourselves out of the recession. The 2009 federal deficit is projected at \$1.58 billion (three times last year) and \$9 trillion over ten years; the Federal Reserve has been printing money and buying treasury bills; and

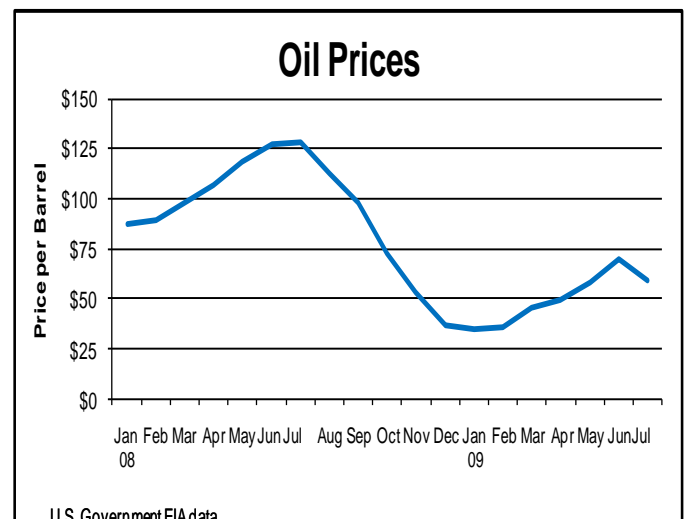
Congress is contemplating the most aggressive spending agenda ever with health care and cap-and-trade. Since these are unprecedented actions NO ONE knows the potential impact down the road. Inflation, the U.S.'s competitiveness in the world economy, the U.S. standard of living, and the U.S.'s role in the world economy all hang in the balance. The next few years will be very interesting.

Commodity prices have stabilized and increases are beginning in response to perceived improvements in the world economy. Commodity increases based on the minor improvements to date cause concern as to what will happen when the economy clearly improves. Many forecasters believe the high commodity prices in effect before the economic crash will return as the economy strengthens.

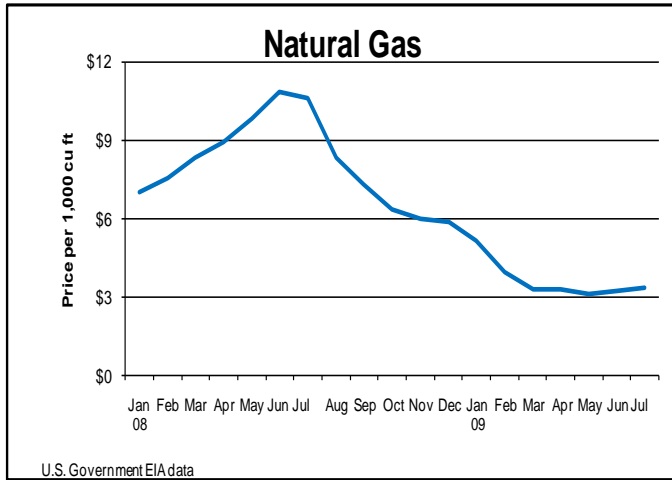
Packaging is being impacted by the general economic conditions as packaging demand has fallen reflecting lower consumer demand for packaged end products. Lower commodity prices are welcome news because packaging producers did not pass along the peak prices of 2008. The raw material reductions are bringing packaging production costs back in line with finished product prices. Individual commodities are discussed below.

Energy

Oil prices fell as the world economy slipped into recession and demand fell worldwide. Prices have begun to increase in response to improving economic sentiment. Prices are hovering just below the OPEC target of \$75 per barrel. The big question is: what will happen when the economy really improves? In the background is the question, what will happen due to government actions? Will efforts to improve fuel economy ("cash for clunkers", CAFÉ standards, etc) really have an impact on reducing oil usage and reduce prices, or will "climate change" legislation increase energy prices?

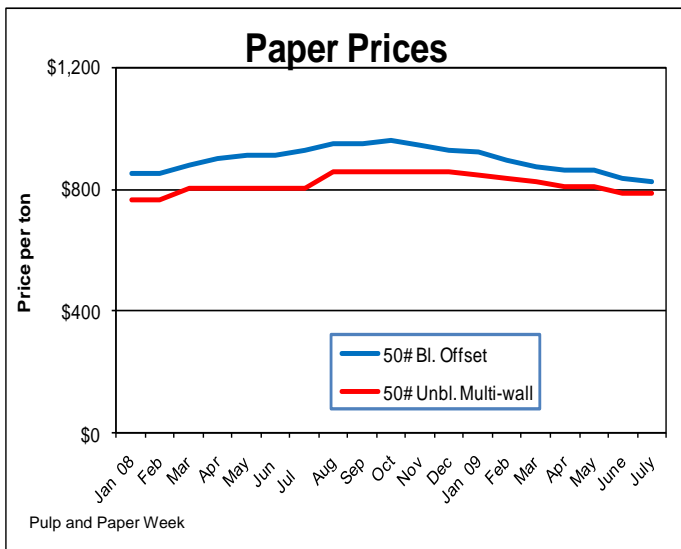


Natural gas prices also have declined as demand stalled with the economy and natural gas production and transmission have increased. Natural gas prices should stay low until the next heating season when demand may increase depending on severity. Again the big unknown in natural gas is proposed cap-and-trade legislation. Efforts to reduce emissions could lead to dramatic increases in natural gas used for electrical energy generation driving up natural gas prices dramatically (and electric costs).



Paper

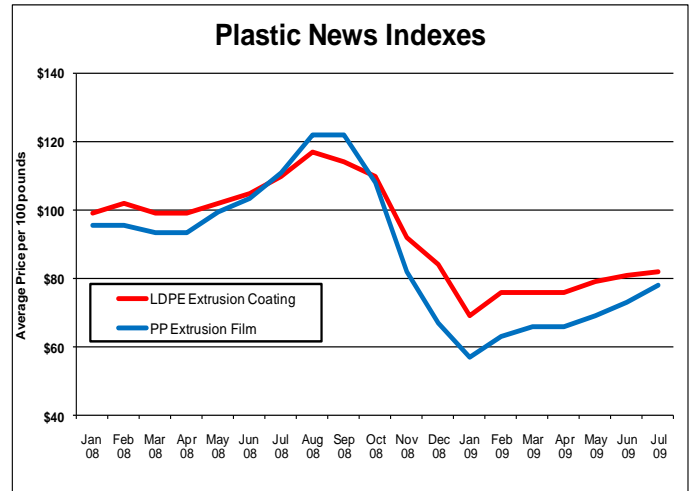
As shown below, paper prices have declined slightly during the economic slowdown. Paper mills have chosen to take downtime rather than reduce prices to improve operating rates. As a result, mill operating rates have declined. Bleached producers have reduced prices slightly more in response to declines in pulp costs.



Resin

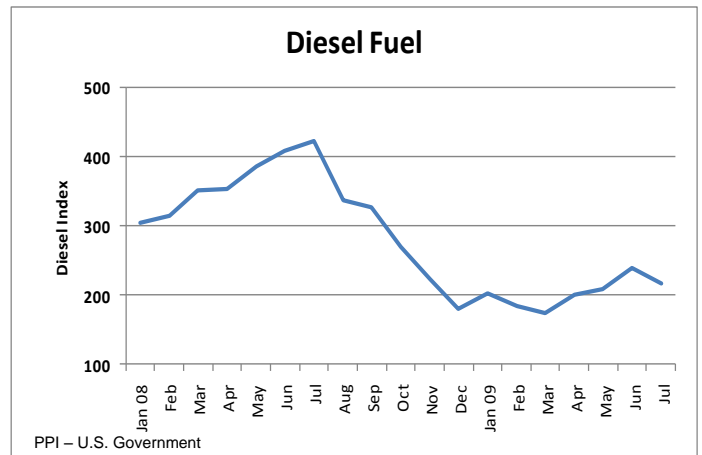
After the sharp resin price decline earlier this year as energy feed stocks became cheaper, prices have started to increase. Improving operating rates and some short-

term supply disruptions have resulted in slowly increasing prices. Polyethylene prices have remained slightly above polypropylene as polyethylene operating rates have been higher. Prices will continue to increase as operating rates improve, but additional capacity is coming on in the Middle East that could drive down operating rates and prices later this year.



Transportation

Trucking and ocean freight costs have declined as diesel prices and surcharges have reflected the oil price reductions. In addition, lower demand for trucks as a result of the recession has improved truck availability. Prices have stabilized as capacity has been removed from the market. In early 2008, there was concern that there would not be enough truckers to haul products in the future. Now truckers are leaving the business due to not enough loads. As the roller coaster continues we may again be short of drivers when the economy improves.



Summary

As the recession subsides we expect raw material price increases. We have already seen the start of increases in many markets just based on improved sentiment. When the recession will truly abate and what will happen in commodity prices remains a big question.