

Survey of Adrian Steel Company Shareholders Ranking the Importance of Investor Interests

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At the request of Adrian Steel Company's management, the Shareholder Forum conducted an independent survey of the Company's shareholders during February 2011¹ to determine their views of investor interests for consideration by the board of directors in its review of possible capital restructuring alternatives.²

The views of participating shareholders are summarized below, followed by a report of the Company's responses to questions that shareholders asked the Forum to present on their behalf. Based on responses to questions about their period of stock ownership, number of shares owned and how shares were acquired, the range of participant views may be considered generally representative of investors unaffiliated with the Company's management.³

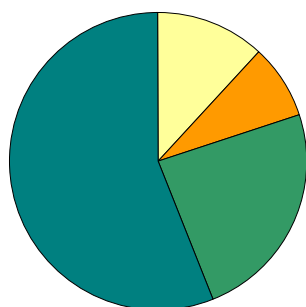
¹ A letter dated January 28, 2011 from the chairman of the Company's board of directors was mailed to all shareholders, inviting their participation in the survey. For what was presented to shareholders, see

- [Letter inviting participation](#)
- [Survey](#) (for printable version of questionnaire, [click here](#))

² The Company had reported in a letter to shareholders and [press release](#), both dated October 29, 2010, that it was "investigating alternatives involving a possible capital restructuring of the Company" and had accordingly suspended open market purchases of the Company's stock..

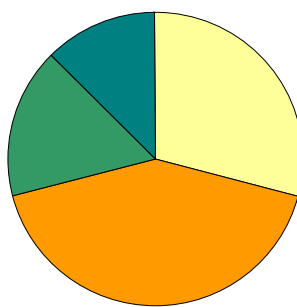
³ More than 90% of participating shareholders answered optional questions about their perspectives, in the following proportions:

Period of Stock Ownership



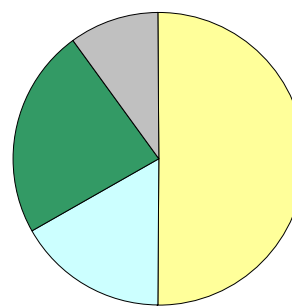
- Less than 1 year
- From 1 to 3 years
- From 3 to 10 years
- More than 10 years

Number of Shares Owned



- Fewer than 100 shares
- 100 to 1,000 shares
- 1,000 to 5,000 shares
- Over 5,000 shares

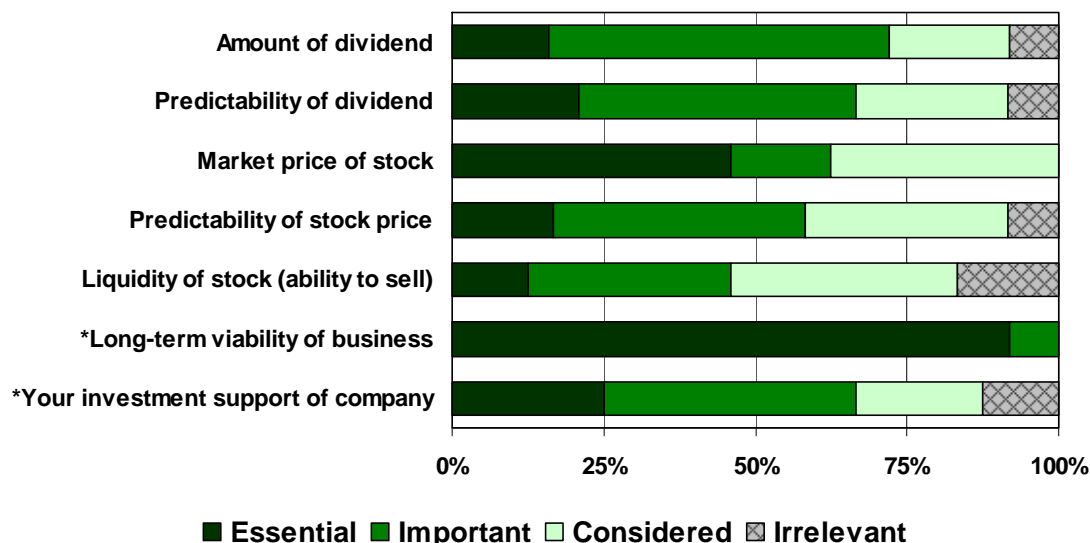
How Shares Were Acquired



- Open market purchase
- Employee purchase rights
- Inheritance or gift
- Other

Note: Multiple responses were allowed for how shares were acquired.

Ranking the Importance of Investor Interests

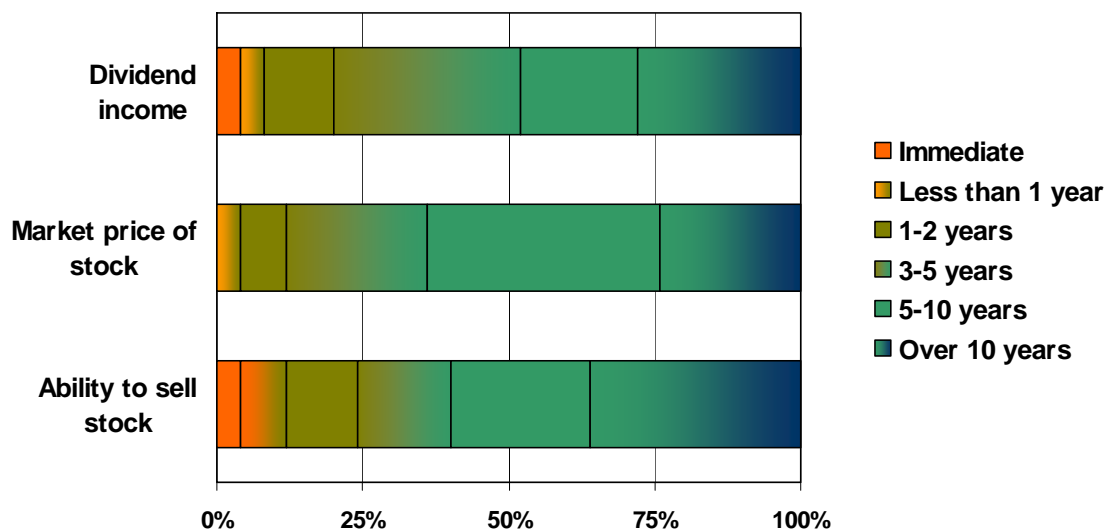


The chart above shows the proportions of participating shareholders who ranked each of the listed interests essential, important, considered or irrelevant. Notably, the market price of the stock received the highest “essential” ranking, with almost half the shareholders, but both the amount of the stock dividend and its predictability had higher levels of combined “essential” plus “important” rankings from more than two thirds of shareholders.

Participants reporting ownership of more than 1,000 shares expressed stronger interests in both stock price and the dividend amount, with approximately two thirds considering stock price essential and more than 80% ranking the dividend amount either essential or important. The rankings of predictability for both dividends and stock price among these larger shareholders, however, were significantly lower.

Shareholders reporting holdings of less 1,000 shares showed much stronger interests in predictability, viewing it as roughly equal in importance to amounts for both dividends and stock price. About two-thirds reported either “essential” or “important” rankings for both dividend amount and predictability, and about 60% gave those same combined rankings for both the amount and predictability of stock price.

Time Periods Considered in Evaluating Interests



As would be expected of investors holding stock that is not actively traded, the chart of responses above shows that Adrian Steel’s shareholders generally evaluate their interests in the context of relatively long periods of time. In these responses as well as in related comments, though, there were similarly understandable expressions of immediate interest in what many investors view as a more reasonable market pricing of the stock and improved liquidity.

Shareholder Questions for Management

Shareholders participating in the survey were invited to present questions for the Forum’s submission to Adrian Steel’s board of directors, with the understanding that the source would be anonymous to encourage candid inquiries. The Forum selected the following questions as representative of all that were presented, and each is followed by management’s response:

- ▶ **“Since the price of the stock does not fully represent the value of the company, will the board raise the dividend payment?”** – *from someone who reported owning the stock for more than 10 years, currently holding 100 to 1,000 shares*

Management response: “Dividend income was clearly important to the entire range of Adrian Steel’s shareholders, from the smallest to the largest. The board is therefore assigning a high priority to both the amount and reliability of dividends in its current consideration of capital restructuring alternatives.”

- ▶ **“Company should define what they mean by “restructuring” as referred to in recent correspondence. As is, investor does not even know if it refers to financial, organization, or..... other than it was significant enough to stop purchase and sale of co shares. It’s frightening”** – *from someone who did not*

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report the nature of stock ownership but had also commented “Thinly traded prevents knowing at any time what stock is worth. Consider splitting stock?”

Management response: “As indicated in the company’s letter to shareholders and its press release, the board is considering restructuring the capital of the company. This involves providing a solid financial foundation for the company’s operations, as well as providing for the most effective possible accommodation of shareholder investment interests. That is why we wanted a survey to find out what shareholders themselves consider important. That is also why we believed it was fair to publicly report that we are considering alternatives that could have a material effect on the value of your investment, and that we should therefore stop buying shares until a decision is announced.”

- ▶ **“If the company split its stock, the trading of its shares may increase; and shareholders might appreciate the ability to cash out part of their investment. Would the Company's Board consider a stock split followed by a buyback program which would enable shareholders to sell some of their holdings to the company?”** – *from someone who reported owning the stock for more than 10 years, currently holding over 5,000 shares*

Management response: “We view the idea of a stock split as part of the broader question about whether our shareholders would benefit from trying to make the stock of Adrian Steel an actively traded, listed security. Observations suggest that this alternative has not worked well for small industrial companies like us, and there is no indication that the discouraging marketplace and regulatory conditions will soon improve. In that context, and also referring to your question about a buyback program, the company has in the past taken a variety of steps to support liquidity by using its available funds to buy shares that are offered. We are aware of our shareholders’ interest in being able to sell their investments at a fair price, if and when they want to do so, and that is one of the top priorities in our consideration of possible restructuring alternatives.”

- ▶ **“Would the Board consider a stock based incentive program as part of key executives' compensation in order to align their financial interests with shareholders?”** – *from the same survey participant who asked the question immediately above, reporting ownership of over 5,000 shares*

Management response: “Adrian Steel currently has a profit sharing plan for all employees, and its top executives have also invested directly in the company’s stock. Aligning the incentives of management with those of investors has always been an important principle of this company, since the majority of its stock continues to be owned by the families of those who built it. We will of course place a strong emphasis on continuing this interest in our consideration of any restructuring.”

- ▶ **“Are the board's interests in line with those of the shareholders?”** – *from someone who reported owning the stock for more than 10 years, currently holding 100 to 1,000 shares*

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Management response: “As lawyers explain it, the members of a company’s board of directors have a ‘fiduciary duty’ to act in the interests of shareholders. Each individual serving on the company’s board understands this duty, and is proud of the full board’s commitment to it.”

- ▶ **“If the Westfall family is not interested in losing control of Adrian Steel by selling to an unaffiliated company, why not buy out the non-family shareholders at a price that would be reflective of the intrinsic value of the Company (currently in excess of \$600 per share)?”** – *from someone who reported owning the stock for more than 10 years, currently holding 1,000 to 5,000 shares, and who also offered these comments in other sections of the survey questionnaire:*

“Maximize shareholder value as a public company by splitting the stock, increasing revenues and earnings, and applying the excess cash flow toward dividends and stock repurchases, with the ultimate goal of selling Adrian Steel prior to the next downturn at a price that would reflect the intrinsic value of the Company. At 10x LTM EPS (ex-interest income) plus \$120 per share in cash net of debt, Adrian Steel should be worth in excess of \$600/share to a buyer in an arm's length deal. As a shareholder who has suffered the ups and downs of the business for more than 20 years with a minimal investment return, I would favor the sell of the Company at the right price (see above). Thank you for reaching out to your shareholders and good luck in maximizing all of our investments in Adrian Steel.”

“I generally invest for at least 3-5 years but, in the case of Adrian Steel (which I have been a shareholder for over 20 years), I am interested in maximizing my investment over the next year or two as I believe the Board of Directors should take advantage of the economic upturn to sell the Company at a price that would reflect its intrinsic value.”

Management response: “The board has been very much aware of the significant differences between actual values for the company’s set by the market (ranging from \$175 to \$330 per share during the past year) and the generally higher theoretical values (including the very flattering \$600 per share analysis presented by the shareholder presenting this question). This was one of the reasons for considering restructuring alternatives, and we will of course be reviewing all the possible means of addressing this investor interest.”

Any survey participant whose question was not adequately addressed in these representative selections is welcomed to ask the Shareholder Forum to seek further management response to a specified issue.

Concluding Observations

The views reported by shareholders participating in this survey were generally consistent in expressing confidence in Adrian Steel's enterprise viability, but with concerns about the practical realization of fair investment value from either the dividends or market prices of the Company's stock. This concern reinforces other indications of inefficiencies relating to the stock which have been observed by the Company's board.

Among these other indications of market inefficiency is a valuation analysis that the Company had asked the Shareholder Forum to engage independently for the benefit of shareholders. Just completed, it reports a current investment value of \$426 per share for Adrian Steel's stock (based on the average of several valuation methods) compared with the past year's actual market prices of only \$175 to \$330 per share referred to in one of the management responses [above](#). A copy of the full report is now posted on the Forum website and can be downloaded from this link:

- [March 18, 2011, Southard Financial: Valuation analysis of Adrian Steel Company for the benefit of shareholders](#) (54 pages, 576 KB, in [PDF format](#))

It should be noted that all of the survey responses were provided to the Company for the board's consideration, without editing other than to delete any information that might identify anonymous participants.

The chairman of Adrian Steel's board of directors has asked the Forum to report their thanks to everyone who has helped them understand what investor interests are most important. I, too, on behalf of the Shareholder Forum, thank everyone who participated in this survey.

GL – March 22, 2011

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