March 24, 2010

From the Desk of: Mark Reiber
President of Innovative Healthcare Corporation

Andrea Logan
All Med Medical Supply

Dear Andrea,

As you’ve been seeing in the market, glove prices are increasing again. We know it’s frustrating for you and it is certainly frustrating for us as well. Each time we are forced to raise prices, we pass on only a portion of our actual cost increase and this is true regarding pending increases we are currently facing.

We understand that being able to explain price increases to your customers is critical to the success of your business. To that end, we’ve summarized each of the primary glove materials for you here and provided some of the underlying variables which are contributing to these increases. There are volumes of information we are simply unable to cover in this piece and as always, if you’d like additional detail, please contact us and we’ll be happy to help.

**Glove Price Increases Explained**

**LATEX**

A. **Impact of raw latex on the cost of gloves**

As you know, latex is an agricultural commodity and like any agricultural commodity there are seasonal effects in its production and cost. We are now in the low-yield or “wintering” season, and during wintering there is always much less latex harvested, causing prices to increase. This is normal and occurs every year. Unfortunately, the pace of the increase is overwhelming this year.
Latex is currently at the highest price in history, and the steep rate of increase has surprised everyone. Since July 9, 2009, it has increased by a staggering 97%!

There are several contributing factors to this sharp increase. It’s partially due to rainier-than-normal weather before wintering, partially due to strong demand from some parts of the world where the economic recovery is very much alive – China and India in particular, partially due to the replenishment of inventories world-wide due to the prolonged economic slowdown, and partially due to market speculation.

Based on current variables, every 2% increase in latex causes the landed cost of product to increase by approximately 1%. So that 97% jump in latex equates to an approximately 49% increase to the cost of product on a glove company’s floor.

B. **Impact of currency exchange rates on the cost of gloves:**

When the USD weakens, imported goods increase in price.
Currency Exchange Rate
Malaysian Ringgit to $US

<table>
<thead>
<tr>
<th>Year</th>
<th>Average</th>
</tr>
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<tbody>
<tr>
<td>2005</td>
<td>3.79</td>
</tr>
<tr>
<td>2006</td>
<td>3.66</td>
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<td>2007</td>
<td>3.44</td>
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<tr>
<td>2008</td>
<td>3.33</td>
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<tr>
<td>2009</td>
<td>3.52</td>
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<tr>
<td>2010</td>
<td>3.38</td>
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3.30 12-Mar-10
The Dollar has significantly weakened against most major currencies since 1st quarter 2009. The Malaysian Ringgit is by far the most significant to the cost of latex and Nitrile gloves because the majority of medical exam gloves are manufactured there. The Dollar has fallen over 11% against the Ringgit since May 2009 and unfortunately there doesn’t appear to be anything on the horizon to reverse that trend.

For every 1% that the USD decreases against the Ringgit, you can assume at least a corresponding 1% increase in the price of gloves.

**The outlook for latex exam glove prices:**

The long-term reality is that latex will continue to climb in price. However, within each year we will continue to see seasonal spikes and drops. Latex WILL fall from its current price as the effects of wintering subside. Probably by May but that’s dependent upon the weather. How much it falls is not calculable. It never is. However, a 10% to 15% decrease is very likely.

Assuming the latex decrease is within normal assumptions, and IF the USD stabilizes close to its present position against the Ringgit, glove prices could decrease by 5% - 7% by late summer or early fall. However if the USD continues to weaken, it’s very likely glove prices will remain at current levels or increase. Keep your eye on the USD. It’s the bigger of the two unknowns.

**NITRILE**

A. Impact of Nitrile rubber (NBR) on the cost of gloves:

Nitrile rubber is a synthetic copolymer of Acrylonitrile (AN) and Butadiene (BD). Typical ratios are:
Nitrile rubber is used in a huge variety of industrial products, including automotive transmission belts, hoses, oil seals, V belts, synthetic rubber and wire/cable sheathing. It’s also extensively used in adhesives and pigment binders. Nitrile gloves are a small portion of the NBR market.

As you can see in the chart, butadiene is the largest component of NBR cost, and it has been very volatile for the last two years. Since 1st quarter of 2009, BD has increased by 75%, and AN, which is normally fairly stable, has been steadily increasing as well.
B. Impact of the exchange rate:

Again, the Malaysian currency has the most impact here because the vast majority of the medical Nitrile glove business is in Malaysia. Although there is some reduction to the currency effect because Nitrile is often traded in US dollars, the weakening dollar still has significant cost impact to the finished product.

The outlook for Nitrile exam glove prices:

There are a couple of bright spots here. First, there is additional BD production on the horizon which will have a dampening effect on NBR prices. Secondly, there is additional NBR latex production in SE Asia, some of which is just beginning to come on line, but most of which will be coming on line later in 2010 and 2011. This additional material should serve to create additional competition and hold the price of material down.

Assuming the dollar remains stable, the outlook for Nitrile glove prices is fair and it is our opinion that it will be possible to reduce Nitrile glove prices by summer/fall of 2010. But again, it’s dependent upon the assumption that raw material prices fall which is not guaranteed – and how much the dollar weakens. The dollar is again the biggest portion of the unknown.
A. Impact of oil prices on vinyl exam glove prices:

Oil prices have an effect on all glove manufacturing because glove production requires a lot of heat and heat requires energy. However, the PVC resin used in the production of vinyl gloves is itself very dependent upon oil prices. As a result, oil prices have a bigger impact on vinyl gloves than either latex or Nitrile.
Unfortunately, because oil is traded primarily in US dollars, a weakening dollar has an inflationary effect on the price of oil. With the dollar weakening, oil prices are likely to continue climbing. As oil prices rise, there will be upward pressure on vinyl glove prices.

B. Impact of exchange rate:

In the case of vinyl gloves, there is currently no impact from exchange rates because vinyl is almost exclusively made in China. The Chinese have resisted significant US pressure to revalue the Yuan, resulting in a very stable exchange rate. However, if this decision is reversed and the Yuan is allowed to revalue, vinyl gloves will increase correspondingly.

The outlook for vinyl exam glove prices:

If the dollar continues to weaken and oil continues to increase, which looks likely at this point, there will probably be fairly modest vinyl glove increases by this fall. If the Chinese Yuan is revalued, which looks very unlikely at this point, there would be immediate increases to vinyl glove prices, the magnitude of which would depend on the new Yuan exchange rate.

Hopefully this information will be useful to you. Please let us know if we can help in any other way.

As always, we are very grateful for your business and your friendship.

Sincerely,

Mark Reiber
President

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