



August 6, 2012

To: Waterstone Customers  
From: Bob Santella, Vice President Sales & Marketing  
Ref: Waterstone Update

Hello Everyone,

We hope this letter finds your business on the upswing and your profits increasing with the sale of our **American Made** kitchen faucets and accessories.

A lot is going on at **Waterstone** and we wanted to provide you an update to help you stay current with us:

- The introduction of our new **2012** Sales and Marketing Program was well received by all of you, and has been a tremendous success and a major factor in our sales increases. Your ability to receive **No Charge Prepaid Freight, a 5% Early Payment Discount** and our **Volume Based Rebate Program** has had you focusing on our American Made products and increased your sales and profit margins.
- Our new **Traditional PLP Faucet** and **Suites** have had phenomenal success, eclipsing the very successful 2011 introduction of our **Contemporary PLP Faucet** and **Suites** by almost **100%**!
- Simply Stated: We've outgrown our current facility. **Thanks to YOU** our orders are up over **35%** through July and still climbing!
- Because of the tremendous increase in orders our lead times have increased to unacceptable levels and we have had to do something to decrease them and **WE HAVE....**
- **On Wednesday August 1<sup>st</sup>** we took possession of our new building that will house our corporate offices and factory. It's **right next to** our existing facility and it will provide an easier move of our people, our existing equipment, and the new machinery that we have on order and which will arrive in September.
- The 42,000 square foot size more than **triples** our current building size and provides us the opportunity to dramatically expand production and **lower lead times** to the levels you have become accustomed to over the last 3 years.
- We plan to start our physical move sometime in September and have it completed by the end of October. We don't plan any production shutdowns as we plan to move on nights and weekends.

### Waterstone Customer Update-August 6, 2012

- In the last 3 months we have added new machinery and since the 1<sup>st</sup> of the year have added over 15 people to our factory workforce. In the meantime we are working **2 twelve hour shifts per day Monday through Saturday**; yes that's **6 days per week** for our production, finishing and assembly crews.
- As we move to our new facility we are upgrading our phone system, adding new Customer Service personnel and working diligently to reduce our order backlog every day. Here are our current product lead times **for orders entered today**:
- **All PLP Faucet and Suites** are **5-7 weeks** with all other products in the **4-6 week range**.
- Naturally, we will do our best to prioritize expedited '**special need**' shipments for your customers. However, we cannot classify every order as a '**special need**' order or the production system falters, which is what has been happening during the last 3-4 months.
- As we have attempted to move orders around out of the normal production flow to solve individual order requests it has actually created more problems and log jams in production and inaccurate shipping dates for many orders. It's been a nightmare for you, your customers, and us.
- By limiting the 'special need' orders we are moving back to an increased production flow for **all orders** and this will enable us to reduce our lead-times even before we move into our new facility and put into production our newly added additional machinery capabilities.

We sincerely apologize for our current situation and the poor communication that has occurred at times. Please bear with us as we work diligently every day to erase our backlog and get back to 'normal' lead-times.

One of the key reasons we have grown at over a **20% per year or greater pace** over the last 5 years is your appreciation of the quality and diversity of our products coupled with our reasonable lead-times.

We believe that a company is judged by how it handles **difficult** times, such as we are experiencing now. **Waterstone** is stepping up and committing all of it's resources by:

Expanding our production facilities (tripling our facility size)

Expanding our Polishing and Finishing facilities (adding more capacity and additional processes)

Purchasing additional state-of-the-art production equipment (3 new machines in 2012)

Investing in more people (over 20 people will be added in 2012)

Continuing our aggressive sales and marketing programs (providing you excellent sales & profit margins)

A customer recently told me: "If you have to have a problem be glad it's because you have more business than you can currently produce. Fix that and all will be well." I guess that is true, but the situations of the last few months are unacceptable to all of us at **Waterstone**. Our driven mission is to be the 'best' Kitchen Faucet supplier in the world and we promise that we are doing everything humanly possible to be that company for you. **Thanks again for all of your past and future support of our products and people.**

I will remain in contact with you throughout the year with updates on all of our improvements while we are all literally working around the clock here to get back once again to providing acceptable lead-times for all of our quality **American Made** products.

Best regards,

Bob

Cc: Chris Kuran, Steve Kliever, Customer Service Staff, Production Staff

26790 Madison Avenue, Murrieta, CA 92562  
Toll-Free 888-304-0660, Local 951-304-0520, Fax 951-304-0525  
[www.waterstoneco.com](http://www.waterstoneco.com)