

Outlook

The water transmission market is showing signs of improvement. As of December 31, 2003, our backlog was \$74 million compared to \$55 million at December 31, 2002. Looking ahead in 2004, we expect to see bidding activity increase in March and then continue at higher levels through at least the second and third quarters.

In 2004 and beyond, the aging water infrastructure continues to garner critical attention. In its 2003 Progress Report for America's Infrastructure, the American Society of Civil Engineers indicates "...there is an annual shortfall of \$11 billion needed to replace or rehabilitate facilities that are nearing the end of their useful life and to comply with federal water regulations." The report goes on to suggest that "...reauthorization of the Safe Drinking Water Act at \$25 billion over a five-year period would go a long way toward improving our nation's water infrastructure." While it is unclear when and to what degree the replacement of failing infrastructure will impact our results, we believe we are well positioned and will continue to participate in the necessary replacement activity in the United States.

For the Tubular Products Group, we see strengthening demand across all our product lines. Recovery in the industrial markets we serve has maintained a steady pace. In January 2004, we installed a roll-forming mill at our Houston facility. We have received positive responses from our government and commercial customers about our proposed product offerings, and expect growth in these markets in 2004.



In addition to increases in volume, we expect to see improving margins due to our efforts to streamline operations and improve efficiency. We saw an improving trend in the latter part of 2003 and we expect it to continue into 2004.

Steel

Steel is a very significant issue. The cost of steel ranges from 30%-80% of our total costs, depending on the product. Steel prices for April and May, 2004 are nearly double what the Company was paying only a few months ago. At this time, it is unclear when pricing will moderate. Further compounding the issue, steel deliveries are being delayed and some orders are being cancelled. Obtaining enough steel to supply our needs is an issue. We are highly focused on the steel situation. In Tubular Products, we are analyzing our product lines and applying available steel toward our higher margin products. We are continuing to work with our customers to pass on increased raw material costs. As long as we are successful at this, we expect to see continued improvement in Tubular Products margins as our efficiency investments show positive results.