



November 30, 2008

Reference: Monthly Letter – November 2008

The current rig count is 1,941, which represents a decline of 1% over the past 30 days.

Last year, at this time, the rig count was 1,773. Drilling activity has increased by 9% compared to the same period in 2007. Drilling activity in the Gulf of Mexico decreased to 59 rigs (-16%) over the past 30 days.

As far as a breakdown of rig activity in the U.S.A., we have 419 rigs drilling for oil and 1,522 rigs drilling for gas. Oil drilling has decreased by 4 rigs (-1%) and gas drilling by 19 rigs (-1%) over the period.

The current WTI oil price is \$49.03/bbl and Henry Hub gas \$6.55/mcf. Oil is now trading at a 7.5 to 1 ratio versus gas. This compares to a 10 to 1 ratio last month. Due to these greatly reduced oil and gas prices, capital budgets will be decreased by 20 – 25% as we begin 2009. This should lead to the rig count decreasing by around 300 to 350 rigs from current levels in the first half of 2009.

Shale plays continue to trigger an upward shift in U.S. gas well productivity. Many of these wells initially produce three to five times greater than the historically average U.S. well. Combined with reduced demand due to our current economic recession, the U.S. has entered into an oversupplied natural gas environment. As we close out 2008, forecasts for 2009 call for the average Henry Hub gas price to approximate \$7.00/MCF. It is expected that 2009 natural gas pricing will be dependent to a great degree on weather conditions this winter.

As drilling decreases we should see a production response within four to six months. Domestic volumes of natural gas totaled 63.4 BCF/day during the first two months of the 3rd Quarter of 2008. This represents year/year growth of 5.7 BCF/day. This occurred due to the strong initial production rates of the shale wells. Since onshore drilling has been focused in these areas, a reduction in drilling should impact production much quicker than has been the case historically. Consequently, winter ending gas storage will be a significant key to a 2nd half 2009 rebound in drilling activity. If we exit winter with storage at 1.3 TCF or below, then we expect to see a 2nd half 2009 rebound. If natural gas storage is 1.6 TCF or higher, then the Henry Hub price will remain under pressure throughout 2009. From 1.3 TCF to 1.6 TCF in storage we would expect the forecasted average price to prevail.

Nevertheless, the fundamentals in the energy industry remain positive beyond 2009.

In the OCTG market, domestic supply totaled 2,579,322 tons (47%) and import supply 2,857,617 tons (53%) in the 1st ten months of 2008. With this, we are certain to see supply go over 6 million tons in 2008. Based on current consumption of approximately 455,000 tons, inventory has now reached a 4.6 month supply. This is up from 3.8 months in midsummer. China has accounted for 28% of total supply and 54% of import supply in the 1st ten months. Based on recent import filings, Chinese imports will be over 1.8 million tons for an approximate 100% increase over 2007.

The table below illustrates short-term prospects by reviewing the movement of key market indicators over the past 30 days.

Crude Oil Spot Price (November)	\$49.03/bbl	- 22%
Natural Gas Henry Hub (November)	\$6.55/mcf	+ 4%
Drilling Permits (3-month average)	6,966	+ 12%
OCTG Shipments in October 2008 Domestic and Import	746,015 tons	+ 3%
OCTG Inventories (October)	2,100,000 tons	+ 6%
Domestic Consumption (October)	458,432 tons	- 2%
OCTG Exports (October)	42,000 tons	NSC

Oil prices continued to decline dramatically reducing the ratio of oil to gas pricing to 7.5 to 1. Drilling permits showed an increase of 12% over the period. As yearend approaches, we expect permits to begin declining as 2009 capital budgets become finalized. Imports from China reached 273,000 tons in October and due to that overall supply increased by 3% from September. Inventories continue to escalate and have now reached 4.6 months supply.

Currently, drilling activity remains stable but 2009 will bring on a more difficult environment.

Sincerely,

Ronald E. Dewan
Chairman and Chief Executive Officer