

3Q10 IPD COMMODITY REPORTS

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CARBON STEEL PIPE

MARKET OUTLOOK

Overall demand is still very weak in most markets, including the energy market, with very few commercial projects upcoming. Major metropolitan markets appear to be the most affected because of the lack of new construction with most of the work there is coming from redesign/repair and government funded projects. Some had hoped that demand would start to pick up in July and August, but it now appears that it will be later in the year, if at all.

The energy market is still the strongest in our industry but took a heavy blow with the suspension of offshore drilling in the Gulf of Mexico. It looks like this market will be affected for the foreseeable future.

Domestic mills such as Allied Tube, EXLTUBE and Welded Tube of Berkeley have entered the 6" and under A53A and A53B markets in earnest and are adding to the downward pressure on pricing.

Announcements of an impending steel HRC increase are not being greeted with much enthusiasm. Whereas in the past, there would have been an inclination to buy into these increases, there appears to be little appetite for robust buying. To some experts, it seems that the increases are more designed to stop the erosion of pricing in the market. The marketplace has seen this before and is less inclined to believe the talk.

IMPORT WELDED & SEAMLESS PIPE TREND

The last quarter saw steadily increasing prices on imported welded pipe. In recent weeks, there has been an erosion of the previous price levels with Korean and Taiwan pricing just below \$900/ton and some Middle Eastern and European priced in the \$830-850/ton area. Pricing has leveled out somewhat with rumblings of increases coming. The fundamentals seem to support recent upticks in pricing, but with the U.S. market mired in recession, such price increases may be short lived.

The increased cost of scrap steel in the last weeks from approximately \$305 to \$355 will certainly increase HRC costs in the short run.

Import mills are reporting sluggish bookings with the large tonnage buy of the past being replaced with smaller and more frequent purchases. Distributors do not want to be caught with higher-priced inventory in a quiet market. Offshore mills are predicting a good 2011 with the balance of the year slow until late 4th quarter, which will bring an uptick of purchases for 2011 stock.

Offshore seamless pipe seems to be recovering pricewise with other countries stepping in to fill the void left by the low-cost leader, China.

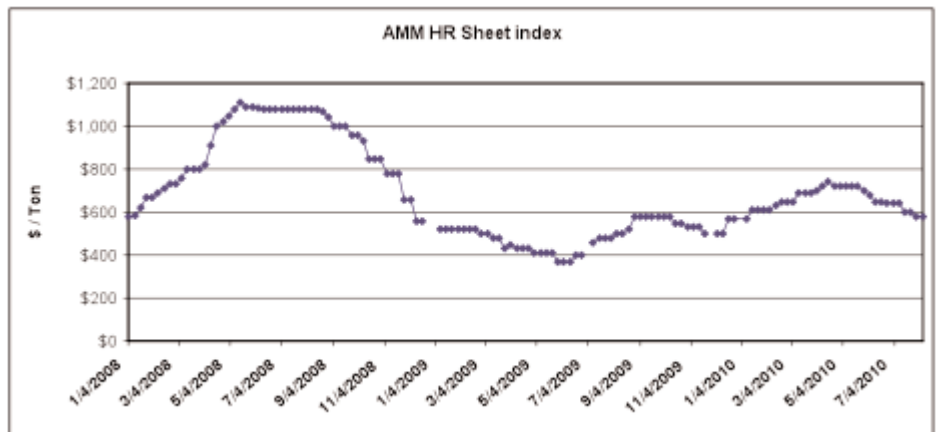
There are traders offering seamless pipe at competitive levels from India, Pakistan and Eastern Europe.

DOMESTIC

While demand for pipe products continued to surge through the first half of this year, it has fallen off in the beginning Q3 due to the traditional business cycle with vacations and mill shut downs. The good news is that the ISM reported that economic activity in the manufacturing sector expanded in July for the 12th consecutive month, and the overall economy grew for the 15th consecutive month. Demand is expected to pick up again in September to a modest level.

Inventory in both raw material and finished goods continues to remain at historic low levels throughout the supply chain. This is a good sign and will aid in a sustained recovery as demand picks up.

Pricing for seamless pipe products has remained stable throughout, but ERW pipe pricing (6" and under) has been volatile with smaller producers trying to generate cash for their organizations.



Pricing in the 8" and above ERW market continues to be stable, but this might not last for long. Wheatland Tube is entering this market with product manufactured at sister company Atlas Tube. While not quite ready to enter production, it is already in the market offering the product to their customer base. With the addition of Wheatland/Atlas to the mix as well as Northwest Tube's constant talk about producing 8" standard wall A53B ERW, competition is going to put downward pressure and squeeze profit margins of the current pipe producers of the 8" and larger pipe, especially if the current lackluster demand does not improve.

It also should be noted that the price erosion in HR coil has halted with producers announcing a \$40/ton price increase. This could alleviate any further price declines in the smaller OD ERW pipe market, IF it takes hold.

ROUTE TO

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CARBON STEEL FITTINGS & FLANGES

CARBON FORGED STEEL FITTINGS & UNIONS

It's a foregone conclusion that the PVF sector has improved during the first half of 2010 versus the first half of 2009. After the crash during the fourth quarter of 2008 and the aftermath results of the first 9 months of 2009, we were not surprised to see a respectful improvement this year. The PVF wholesalers and manufacturers, who earlier this year projected volumes to remain about the same for the third and fourth quarters, are on target.

Inventories of commodity forged steel fittings remain at historical low levels. With today's excellent fill rates, short lead times on A & B items, master distributors and several other options to complete an order as required, wholesalers need not risk overstocking. Also, there is caution of inventory values as the debate over forged steel fittings is one that precludes any certainty of future price movement. For example, it was previously reported that this year has seen a substantial increase in raw materials and other business costs to produce this product line. This would lead one to believe there would be upward price movement. Instead, the attempt to raise prices failed due to extreme competitive forces. The lesson to be learned that we often forget is not to hedge or second-guess this market.

The American Recovery & Reinvestment Act (ARRA) continues to be ambiguous for product compliance unless the raw material (steel, forging, casting & pipe) originated in the United States, and the product is manufactured completely in the United States. It is best to have the manufacturing or wholesaler source present a certification of compliance for any products that must qualify under the ARRA. Several manufacturers have done extensive research in order to furnish their official company ARRA certification of compliance position.

In summary, the forged steel fittings market remains stable with excellent fill rates, competitive vigilance and discretionary future value. Naturally, energy markets are subject to sudden shifts, and there are the unexpected extraordinary events that disrupt the natural order of doing business. The fragile state of the U.S. and our trading partners' economies remains the dominant force that leads us to believe immediate and further PVF sector growth will be restricted.

CARBON STEEL WELD FITTINGS & FLANGES

Currently, the U.S. market is still weak at best and living off of government spending. Yikes! The private sector is still sputtering along fueled only by anxiety and the fear of a double-dip recession. Double yikes! However, there are pockets of activity around the country, but they are spotty at best. Unfortunately, this will remain the norm while most businesses wait and see what the effects of the new health care overhaul will be and the looming possibility of Cap & Trade legislation. But overall, things could be worse.

For the most part, distributors are hanging in there keeping their carbon fitting and flange inventories at workable levels and only buying what they need. Earlier in the year, there was fear of massive price increases on flanges due to the raw materials, specifically flange forgings. Flanges were expected to have an overall increase around 20%. However, the market now looks as if it has stabilized domestically, and the overseas market has softened since the previous quarter. Carbon weld fittings have not seen any real change, and barring no major developments in the marketplace, fittings and flanges alike will remain at current pricing levels through the end of the year.

CARBON WELDED & SEAMLESS PIPE NIPPLES

Welded pipe nipples are in good supply with little indication of future price increase or decrease. Based on the residential and commercial markets not expecting to show any significant improvement for at least another year, the import welded pipe manufacturers continuing to hold prices, and the plentiful sources for this finished product line, there is no reason to anticipate further price increases this year. However, many thought that there was no reason for this year's significant price increase of import ERW pipe, so let's not try to quantify what might take place.

Seamless pipe nipples 7 percent average price increase in the second quarter was based on the increase cost of seamless pipe. Raw material cost to manufacturer seamless pipe continues to increase, and recently supply has become an issue. The availability of low-cost seamless pipe has been exhausted, and the mill lead times have been extended. This combination coupled with pipe mills also stating prices are going up again, forces many to believe that there may be another seamless pipe nipple price increase in the fall. As we have learned, rationalization and ideology doesn't really matter when it comes to the marketplace.

PLASTICS

The plastic markets, like most commodity markets, are under severe pressure as a result of continuing soft commercial construction and declining resin prices. In addition, ethylene pricing and production have also had an impact on PVC driving pricing down further. Although June, July and August witnessed a steady decline in resin prices, it appears to have leveled-off in the short term. The general sentiment in the market is resins and ethylene may increase slightly in the fourth quarter of 2010. However, the lack of demand and multiple manufacturers may not result in PVC price increases. Another factor for PVC buyers continues to be the tight credit market. Wholesaler and manufacturer inventories have been below traditional levels due in part to the reluctance to extend credit and the uncertainty of credit on projects. Manufacturers' desire to keep plants operating at higher capacities may force them to absorb the

potential resin and ethylene increases, or at a minimum, not pass along the entire increases. The resulting summary for pricing in the summer of 2010 has been dramatic price reductions in Sch 40 PVC, and the beginning of price erosion in the Sch 80 market. To date, CPVC has been largely unaffected.

HDPE faces the same raw material challenges, and although pricing has receded for HDPE, it has not been to the level of PVC. Activity has been stronger in the HDPE market with fewer players putting pressure on pricing, and Manufacturers' inventories have been reasonably strong. However, there are plant expansions scheduled for a few manufacturers as they cite the longer-term need for HDPE. The high cost of steel and other reasons have contributed to HDPE being a viable alternative on traditional steel projects.

COPPER TUBE & FITTINGS

Upward and downward forces on the price of copper last quarter were operating in a manner that inspired pessimism in some analysts, but also has led some to believe that the long-term outlook is extremely bullish. In reviewing a sample cross-section of the information on the metal industry's fundamentals, technical analysis and published opinion for the last three months, it can be generally concluded that even though there are currently myriad factors that are keeping the price of copper down around 13% for the year so far, the strength of those factors is unlikely to outweigh the emerging trends that will render the reddish metal much rarer, and therefore, more expensive in 2011.

TODAY'S UNCERTAINTIES DAMPEN PRICE SHORT-TERM

Despite improved risk sentiment, copper prices at present are languishing at about 20% below their April peak. The concerns mostly stem from China's slower gains in real estate prices. The Chinese government has imposed lending and property restrictions, attempting to curb demand, tame inflation and prevent property bubbles from growing. As the world's largest consumer of copper experiences a demand slowdown, the drop in copper imports to China spurs investors to place their money elsewhere, and the price remains on the low side.

Add to that the austerity programs being implemented in Europe to deal with the debt crisis, and Wall Street becomes wary and reluctant to become involved in commodities. Here in the U.S., copper's price struggles on a sluggish economy. The job numbers recently released were disappointing, and traders think that's going to weigh-in on things for the foreseeable future.

But, by focusing in on just those facts, the bigger picture is missed. There are conditions and opportunities that make a convincing case for a more bullish outlook ahead.

CHINESE SOCIAL & ECONOMIC EVOLUTION

Although much attention is given to how China's property policies will halt the surge in demand for copper, the real estate sector only accounts for 10% of the country's total copper consumption. Power generation is actually the biggest demand driver of copper, and the need for more and better infrastructure shows no signs of slowing.

China's urban population is expected to surpass 700 million in the next five years, exceeding the population of rural inhabitants for the first time. The total population is the world's largest at 1.3 billion, and will reach 1.4 billion by 2015. That pattern of growth and migration suggests a great need for power grid development - copper's highest volume purchaser. It also indicates that other copper-consuming sectors, such as automobiles and appliances, are only in a temporary cooling-off period.

Building new floor space continues to grow at 20% to accommodate the need for commercial and residential development. Banks and state-owned enterprises are moving to new buildings to create their own corporate identities, and city dwellers are cultivating tastes for more sophisticated lifestyles. In addition, more than a million Chinese peasants are outgrowing their slums and gravitating toward modern housing.

CHINA IS NOT THE ONLY GAME IN TOWN

About 27% of the world's copper demand comes from China, making it the planet's biggest copper user, followed by the United States. With growth in the U.S. projected to be stagnant for the time being, China will probably remain the catalyst for the copper market. But, as other developing economies rush to catch up with the West, their need for copper will become apparent, too.

One example would be India, suffering from a peak power deficit of over 12%. Nine major power transmission projects, worth billions, are awaiting approval from the country's regulatory authorities. As these projects get underway, they will rely heavily on copper.

Another indication is found on the Engineering News-Record's list of the top 10 global mega construction projects. It shows various multi-billion dollar endeavors, ranging from a \$60 billion land reclamation in Egypt to Saudi's \$80 billion effort to diversify its economy away from oil and gas. Major undertakings for water supply and irrigation, entertainment and leisure complexes, and industrial and urban development throughout Africa, Europe, Asia and the Middle East are included in the top ten; all will consume significant amounts of copper in the form of pipes, tubes and wires.

COPPER DEMAND MAY SOON EXCEED SUPPLY

According to a July 27 report issued by Barclays Capital, "Refined copper faces a deepening supply crunch, and record prices are highly likely in the next two years. With few new, large-scale mines on the horizon, and stagnation at existing facilities, in our view, price direction will be upwards, given the approach of multi-year deficits." Because copper mines require a great deal of time and money upfront to begin producing, there will be little growth in production in the near future. Also, the industry is finding that the quality of ore grades continues to decline with copper taken out of existing mines, causing mining companies to miss output forecasts.

Robert Friedland is the CEO of the Canadian Mining Company in Ivanhoe, which owns 66% of the Oyu Tolgoi project in Mongolia's Gobi desert and promises to be the world's next top-producing mine. He is noted for being the first among the mining principals to predict the rise of metals demand from China's urbanization and industrialization boom, earning him high credibility among his peers.

Friedland points out that while the world mined 585 million tonnes of copper in the 108 years from 1900 to 2008, it will need to mine 600 million tonnes in the next 20 years alone, assuming 3% global economic growth. "Frankly, those of us in the business have no idea where this amount of copper is actually going to come from," he told delegates at a recent industry meeting.

The forecasted need for 600 million tonnes of copper over the next 20 years does not even include the demand to come from the phenomenon of electric cars, believes Friedland. His view is that hybrid cars are old news, and lithium battery-powered electric cars are poised to begin phasing in to replace all cars over the next 20-30 years. The lithium batteries are made of a copper foil sprayed with graphite and lithium-cobalt oxide and rolled up, with copper being 80% of the weight of the battery, about 790 pounds for a family-sized car. Multiply that by the 500 million people who will want electric cars, and the implication for the copper market is "breathtaking," says Friedland.

OVERVIEW

With measures from Beijing to slow growth and curb property speculation and economic uncertainty primarily coming from Europe and the U.S., a slowdown in the second half of this year could push copper down to the \$2.50 range on the COMEX, but even though copper prices are suppressed by pessimistic outlooks for the moment, the fundamentals in both supply and demand are robust enough to point directly towards big price gains the following year.

STAINLESS STEEL PIPE, FITTINGS & FLANGES

Welcome to the latest installment of "As the Stainless PVF World Turns." The third quarter traditionally brings lower overall demand and more pressure on material prices. And, with the backdrop of a slowing recovery in the U.S., 13-month low industrial output levels in India and five consecutive months of slower industrial activity rates in China, one would have expected nickel and all base metal prices to remain sluggish - at best. But, in this economic era of intrigue and mystery and occasional flat-out confusion, nickel price levels have actually increased since the beginning of the quarter. At the time of this writing, primary nickel had gained over 12% and 18-8 scrap prices were up nearly twice that.

Scrap prices rising at a more aggressive pace than primary prices is an indication of strengthening fundamentals and poses an argument for even stronger prices in the fourth quarter. London Metal Exchange warehouse stocks of refined nickel stand at about 166,000 MT, which is more than 30% lower than the record levels registered on February 8th. While LME inventories remain historically high at approximately seven weeks of global consumption, current projections call for an annual deficit of 20,000 MT following a 45,000 MT surplus last year. It

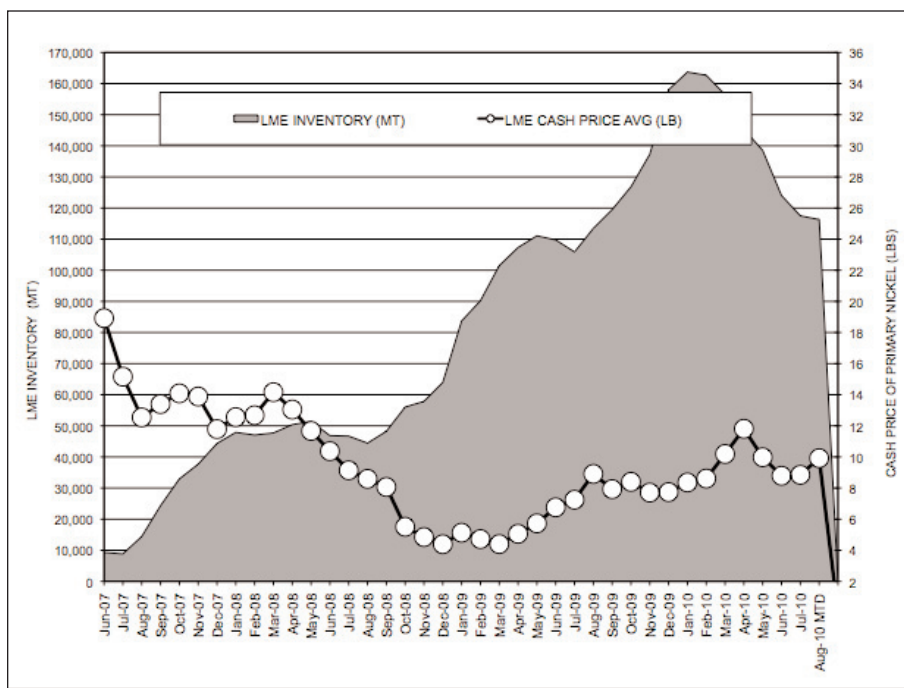
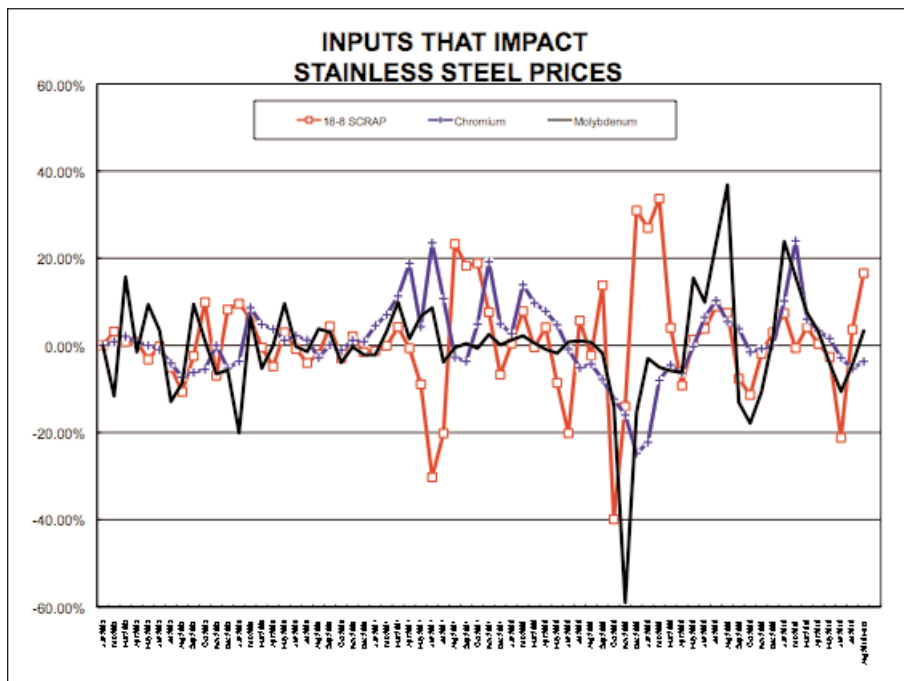
would be a major stretch to characterize overall demand as strong, especially in the U.S. and Europe, as speculators have taken note that demand for nickel is spiking across myriad products, including hybrid and electric car batteries, cell phones, home appliances, coinage, cutlery and magnets. Stainless steel industrial and building materials comprise the majority of nickel's demand, and this sector is recovering at a surprising pace, particularly in developing countries challenged to address immense infrastructure requirements. Moreover,

analysts are currently projecting that global demand will increase 6% next year, while supply increases by only 4%. China has increased its percentage of global consumption from 4% to 25% in a mere ten-year period, and while the growth there and in India may be slowing,

there is still healthy growth in those and the other BRIC countries. Perhaps, this is the primary reason that nickel has outperformed all other main metals on the LME throughout 2010.

The reality is that higher nickel prices lead to mine restarts and increased production levels of nickel pig iron, which in turn, can alter the precarious supply and demand balance and dampen speculative enthusiasm. Regardless, Vale's messy Canadian strike that persisted for nearly a year has been resolved, and operations will likely reach full capacity by the end of the third quarter. The extent to which this additional capacity of high purity nickel has been factored into institutional investors' current price sentiments remains to be seen. But, the prospective fallout from the ugly tussle between two Russian oligarchs for control of the world's largest nickel miner, has the potential to have a much different and far greater impact on global supply levels. It is absolutely vital for the

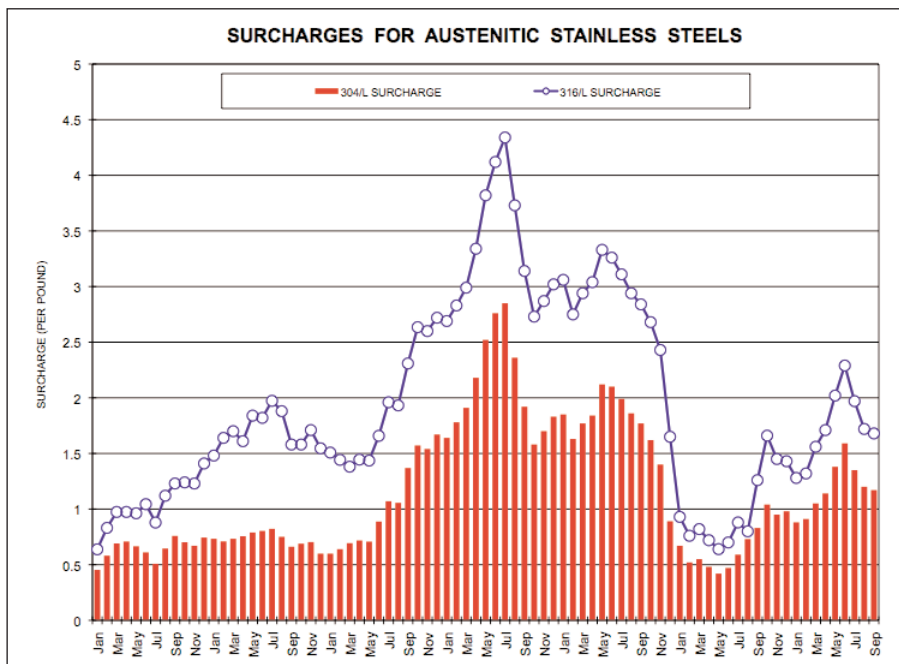
major mines to impart price stability to help fend off the efforts of certain rogue traders who prey on this thinly traded metal and attempt to manipulate market price levels to extract profits. In this fragile economic environment, major stainless mills are faced with the responsibility of matching output to actual demand levels to maintain market price integrity and preserve profitability. Both undertakings are daunting tasks, indeed.



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Amid all of the opaque and perplexing indicators that traders and market participants monitor to try and determine nickel and austenitic stainless steels' cost and price paths, the U.S. dollar appears to be the most reliable one. Much of the recent rallies across the base metals complex can be attributed to the dollar taking respite from recent gains. However, a strengthening dollar makes metals priced in U.S. dollars more expensive in terms of other currencies and consequently reduces global demand levels and the appeal for metals (and other commodities) as an investment alternative. The affect of the greenback is even more pronounced during these hyper-sensitive and indeterminate economic times. To illustrate the

correlation: primary nickel ended August 6th at \$10.02. The following week, the dollar strengthened by 2.8% against a basket of six other major currencies, and nickel closed on August 13th at \$9.74 – a change of 2.76%.



Turning our focus to PVF markets, inventories and corresponding service levels continue to be hampered throughout the channel by the inherent uncertainty of future material costs and demand. However, the requisite aversion to risk may be subsidizing as material and finished product cost and price trends firm. Looking forward towards the fourth quarter, expect nickel and stainless PVF prices to at least mirror global economic growth patterns.

GROOVED/MALLEABLE IRON FITTINGS

GROOVED FITTINGS & VALVES

The downturn in the economy continues to have a negative impact on the overall activity in the commercial market. The forecast will most likely continue to be flat through the remainder of the year. Some economists predicted earlier that we would likely see an upward trend in activity in the 4th quarter of 2010, but they are now saying it will be pushed out to the 1st quarter of 2011. Although construction in the education market has historically been good for quite some time, capital project work at the universities has been disappointing this year, and there is not much of a backlog on the books. Looking ahead, universities hold a conservative outlook as there have been a number of layoffs and are only doing the facilities work and maintenance projects that are necessary. The food and beverage market has also seen a decline in project work this year as compared to previous years. The activity of private funded projects of multi-family, office buildings and retail is very limited with no change expected any time soon.

On a positive note, we have experienced a healthy market in healthcare with some very large projects breaking ground during the 1st quarter of next year. In the public sector, there have been

numerous government funded projects, such as military bases and reserve centers, throughout the country that should continue for quite some time. The power market remains strong in the energy sector and oil/gas is progressively increasing and is supported by strong earnings reported in the financial market. This increase in the oil/gas market has also generated timely interest and activity for acquisitions among wholesale distributors in strategic locations of major gas finds.

A moderate price increase is anticipated in the 4th quarter of 2010 or the 1st quarter of 2011.

MALLEABLE IRON FITTINGS

Plant production at the two domestic producers in the U.S. continues to be down while costs continue to escalate on raw materials and scrap. With market conditions expected to remain unchanged, volume will continue at less than capacity in hopes of solid 2011 recovery. The drop in global demand has had the same negative effect on foreign producers of malleable as well. While the domestic producers have announced a 6% increase effective October 1st, the import producers are anticipated to follow by the 1st quarter of 2011.

VALVES

More than half of 2010 has come and gone, and there appears to be modest improvement in the level of business as it relates to the prior year. However, with 2009 business volumes being down in the 20-30% from range from 2008, we are still a long way from 2008 levels and may not see them for a very long time.

2010 MARKET OVERVIEW

Coming into the year, the outlook for 2010 was one of "cautious optimism" with a slow but gradual recovery from 2009 levels expected in the first six months of 2010 and a stronger performance in the second half of the year. At this point in time, it appears that the recovery period will remain slow and gradual well into 2011 can be attributed in part due to the following factors:

1. Some of the growth experienced in the first half of 2010 over 2009, as seen through eyes of the manufacturer, has been due to a recovery in distribution inventories from the nearly unsustainable levels reached in late 2009. Therefore, the true market improvement is slightly less than the total improvement seen thus far.
2. General market conditions are still quite weak. Uncertainty regarding the financial markets, tax rates and the potential impact on businesses from new and recently passed legislation has kept the economy from growing at a more aggressive pace and will likely continue to do so.
3. GDP has grown at a 3% pace for the past year but is forecast by many economists to drop to a range of only 1-2% during the second half of this year and the first half of 2011.
4. This drop in GDP along with slower growth in consumer spending, inventory investment and exports as well as continued weakness in construction and state and local spending are signs that the economy could stall or "double dip" into another recession.

MAJOR MARKET ACTIVITY

In general, the market improvement is mixed from one industry to the next and even within industry from one geographic location to the next. This mixed improvement appears to highlight the fragile nature of the recovery thus far. The power, municipal water/wastewater and oil & gas markets have improved the most.

The power market should continue to be active in 2010 as there is a tremendous need for new energy infrastructure worldwide, particularly in the developing countries. The "new build" U.S. power market has slowed dramatically due to the uncertainty of the "Cap and Trade" legislation currently being debated in Congress, and we see no recovery in this area until there is a definitive answer (hopefully, that it will be abandoned altogether) on this critical issue.

The outlook for oil & gas is definitely more positive than it was in 2009. With crude oil prices stable and at fairly attractive levels, we can expect project activity to remain steady throughout 2010, especially internationally.

The municipal water/wastewater markets appear poised to have another strong year in 2010. The short-term injection of stimulus funding coupled with increased federal funding over the next 5 years and the acceleration of the replacement cycle for our infrastructure is fueling this forecast. The outlook for these particular markets remains bright for the next several years.

The three markets that are still showing little to no signs of growth in

2010 are commercial construction, chemical processing, and residential construction. The weakest of these markets continues to be commercial construction where the experts were predicting double-digit year-to-year declines in 2010. However, while it does not appear to be as severe as predicted, there is still little to no real improvement in this market sector as a whole. Chemical processing and residential construction were both considered "wild cards" for 2010 with no definitive direction "up" or "down" being indicated by multiple industry surveys. Both remain weak with very little sign of significant improvement in the near term.

PRICING

Price increases, if any, occurred very late in 2009 and were very selective - almost to the point of being non-existent. As we moved into early 2010, we saw market price increases for products derived primarily from copper and iron-based materials rise again as raw materials increased back to levels that were nearing 85% of their all-time high.

The copper and iron raw material prices have remained at essentially the same levels for most of 2010. As the year progresses, pressure will increase for manufacturers to raise prices for the following reasons:

1. Wage & 401(k) cuts & freezes instituted in 2009, in order to remain in business, have been reinstated or will be shortly.
2. Healthcare reform will have an immediate impact as insurance companies adjust their rates to account for individuals with preexisting conditions, for which they are now responsible, and an increase in the age of child coverage to 26.
3. The dollar has continued to weaken against many currencies, in particular, the Chinese rmb. As the rmb increases in value, the impact to all manufacturers and/or distributors that buy product from China will be an increase in cost of any item coming from China.
4. Should "Cap and Trade" legislation pass, this will have a significant impact on manufacturers and cause an immediate need for an increase price.

The pricing issue for manufacturers who are producing bronze valves for potable water service was further impacted by new "lead free" laws in California (AB 1953) and Vermont, which require these valves to be made of much higher cost raw materials. Currently, there is a bill in the U.S. House of Representatives that could spread the impact of this legislation throughout the entire country. As awareness and enforcement increase in California, inventory and factory orders for compliant material will also increase.

It is likely that due to the factors discussed above, price increases will be necessary at some point in 2010 or early 2011. They should be modest unless raw materials rise significantly or the currency devalues substantially, and they will vary across products based on these factors.

2010 SECOND HALF MARKET FORECAST

Technically, the recession was over early in the year. Our forecast is that wholesale-distribution will continue growing at a slow and gradual rate well into 2011, and valve sales will follow that trend. That said, the possibility still exists for the recovery to stall and possibly dip back down again. Therefore, it would be wise for both manufacturers and distributors to be "cautiously optimistic" in their business approach for the balance of 2010 and well into 2011.