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o withdraw a private debt offering. The charge for fiscal 2000 was primarily for compensation expense associated with the employment agreement of an executive officer. The terms of the agreement entitled the officer to a sum equal to an outstanding note and accrued interest, totaling $1.2 million at December 31, 1999, upon the sale of the Company's Class A common stock in an initial public offering. NATCO completed its initial public offering on January 27, 2000, and, pursuant to the terms of the agreement, we recorded compensation expense for the amount of the note and accrued interest, including related payroll burdens, totaling $1.3 million. In addition, we recorded relocation expenses totaling $208,000 associated with the consolidation of two facilities following the acquisition of Porta-Test in January 2000. Interest Expense. Interest expense for the year ended December 31, 2001 increased $3.4 million, or 211%, to $5.0 million from $1.6 million for the year ended December 31, 2000. This increase was due to borrowings of $50.0 million under a term loan arrangement to finance the purchase of Axsia, additional borrowings under revolving credit facilities during fiscal 2001 as compared to fiscal 2000, an increase in commitment fees under borrowing arrangements and an increase in interest incurred for letter of credit arrangements due to an increase in overall letters of credit outstanding. Interest Cost on Postretirement Benefit Liability. Interest cost on postretirement benefit liability decreased $399,000, or 31%, from $1.3 million for the year ended December 31, 2000 to $888,000 for the year ended December 31, 2001. This decrease in interest cost was due to an amendment to the plan that provides medical and dental coverage to retirees of a predecessor company. Under the amended plan, retirees will bear more cost for coverages, thereby reducing our projected liability and the related interest cost. Interest Income. Interest income increased $479,000, or 265%, from $181,000 for the year ended December 31, 2000 to $660,000 for the year ended December 31, 2001. This increase in interest income was primarily due to interest earned on a federal income tax refund paid during 2001 by the Canadian taxing authorities. Other Expense, net. Other expense, net of $429,000 for the year ended December 31, 2001 relates primarily to foreign currency transaction gains and losses incurred primarily at Axsia, and certain costs to exit derivative arrangements acquired with the purchase of Axsia in March 2001. 26 Provision for Income Taxes. Income tax expense for the year ended December 31, 2001 decreased $1.5 million, or 27%, to $3.9 million from $5.3 million for the year ended December 31, 2000. This decline in income tax expense was primarily due to a decrease in income before income taxes, which was $9.3 million for the year ended December 31, 2001 as compared to $13.0 million for the year ended December 31, 2000. This decrease in income tax expense was partially offset by an increase in the effective tax rate from 41% to 42% for the years ended December 31, 2000 and 2001, respectively, primarily due to the impact of non-deductible goodwill amortization expense. YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999 Revenues. Revenues for the year ended December 31, 2000 increased $54.6 million, or 32% to $224.6 million, from $169.9 million for the year ended December 31, 1999. The following table summarizes revenues by business segment for the years ended December 31, 2000 and 1999, respectively: FOR THE YEAR ENDED DECEMBER 31, CHANGE ------------------- ------------------- REVENUES: 2000 1999 DOLLARS PERCENTAGE --------- -------- -------- ------- ---------- (IN THOUSANDS, EXCEPT PERCENTAGES) North American Operations....................... $123,745 $ 82,345 $41,400 50% Engineered Systems............................. 67,821 52,518 15,303 29 Automation and Control Systems................. 42,761 41,843 918 2 Corporate and Eliminations..................... (9,775) (6,758) (3,017) (45) -------- -------- ------- Total.. $224,552 $169,948 $54,604 32% ======== ======== ======= Revenues from our North American operations segment for the year ended December 31, 2000 increased $41.4 million, or 50%, to $123.7 million from $82.3 million for the year ended December 31, 1999. This increase was due to an increase in oilfield activity resulting from an overall increase in oil and gas prices in 2000. We experienced increased demand for our production process equipment, as well as in the domestic parts and service business. Also, our Canadian operations provided increased revenues due to the acquisition of Porta-Test in January 2000, and the completion of two significant gas plant projects for Chevron Canada and several projects for Pemex. Partially offsetting these increases was a decline in service revenues of $2.8 million due to the early termination of a U.S. carbon dioxide gas-processing agreement by a customer in the fourth quarter of 1999. Inter-company revenues for this business segment were approximately $5.4 million and $2.7 million for the years ended December 31, 2000 and 1999, respectively. Revenues from our engineered systems business segment for the year ended December 31, 2000 increased $15.3 million, or 29%, to $67.8 million from $52.5 million for the year ended December 31, 1999. This

increase was primarily due to the contribution of one customer, CTOC, which provided revenues of $45.9 million for the year ended December 31, 2000 as compared to $14.6 million for the year ended December 31, 1999. The acquisitions of MPE and ESI in February 2000 and April 2000, respectively, also contributed to the increase in engineered systems revenue. This increase in revenue was partially offset by a decline in other domestic and international engineered systems, consistent with a decrease in project awards by our customers throughout 1999 and early 2000 as a result of lower natural gas prices in 1999. Engineered systems revenues of $67.8 million for the year ended December 31, 2000 included inter-company revenues of $286,000, as compared to $1.7 million of inter-company revenues for the year ended December 31, 1999. Revenues from our automation and control systems business segment for the year ended December 31, 2000 increased $918,000, or 2%, to $42.8 million from $41.8 million for the year ended December 31, 1999. Despite the completion of several large projects in 1999, revenues for this business segment increased due to stable demand for our automation and controls products and an increase in inter-company revenues from $2.3 million for the year ended December 31, 1999 to $4.1 million for the year ended December 31, 2000. The change in revenues for corporate and eliminations represents the elimination of inter-company revenues as discussed above. 27 Gross Profit. Gross profit for the year ended December 31, 2000 increased $19.5 million, or 46%, to $61.8 million from $42.3 million for the year ended December 31, 1999. As a percentage of revenue, gross margins improved to 28% for the year ended December 31, 2000 compared to 25% for the year ended December 31, 1999. The following table summarizes gross profit by business segment for the years ended December 31, 2000 and 1999, respectively:

	FOR THE YEAR ENDED DECEMBER 31,		CHANGE	
GROSS PROFIT:	2000	1999	DOLLARS	PERCENTAGE
	(IN THOUSANDS, EXCEPT PERCENTAGES)			
North American Operations	$28,609	$19,956	$ 8,653	43%
Engineered Systems	24,362	13,490	10,872	81
Automation and Control Systems	8,824	8,893	(69)	(1)
Total	$61,795	$42,339	$19,456	46%

Gross profit from our North American operations business segment for the year ended December 31, 2000 increased $8.7 million, or 43%, to $28.6 million from $20.0 million for the year ended December 31, 1999. This increase in margin was primarily due to a 50% increase in revenues from this segment and improved margins on export parts and services, as well as the contribution of Porta-Test, which was acquired in January 2000. As a percentage of revenue, gross margins for the segment were 23% and 24% for the years ended December 31, 2000 and 1999, respectively. Gross profit from our engineered systems business segment for the year ended December 31, 2000 increased $10.9 million, or 81%, to $24.4 million from $13.5 million for the year ended December 31, 1999. This increase was due primarily to a 29% increase in revenues from this segment and higher margin projects included in the sales mix for 2000 as compared to 1999. As a percentage of revenue, gross margins for this segment were 36% and 26% for the years ended December 31, 2000 and 1999, respectively. Gross profit from our automation and control systems business segment remained relatively constant from the year ended December 31, 1999 to the year ended December 31, 2000. Revenues from this business segment increased 2% primarily due to an increase in inter-company sales with little impact on gross margin. As a percentage of revenue, gross margins for this segment were 21% for each of the years ended December 31, 2000 and 1999. Selling, General and Administrative Expense. Selling, general and administrative expense for the year ended December 31, 2000 increased $7.1 million, or 22%, to $39.5 million from $32.4 million for the year ended December 31, 1999. This increase was largely related to the execution of our business plan and included: - additional costs associated with the acquisitions of Porta-Test, MPE and ESI; - increased spending for technology and product development; - additional expenses related to being a public company; and - continued investment in pre-order engineering expenses. Depreciation and Amortization Expense. Depreciation and amortization expense for the year ended December 31, 2000 increased $430,000, or 9%, to $5.1 million from $4.7 million for the year ended December 31, 1999. Depreciation expense for the year ended December 31, 2000 decreased $555,000, or 15%, to $3.1 million from $3.7 million for the year ended December 31, 1999. This decrease was primarily due to extending the service life of certain operational assets. This decrease in depreciation expense for the year ended December 31, 2000 as compared to the year ended December 31, 1999, was partially offset by: (1) depreciation on the addition of capital assets during the last four quarters, which included renovations and expansions of existing manufacturing plants such as a drying plant at the Pittsburg, California facility, technological improvements to management information systems and the purchase of computer hardware and software, and acquisitions of and improvements to other equipment used in the Company's business; and 28 (2) depreciation expense due to the inclusion of results from Porta-Test, MPE and ESI, acquired during fiscal 2000. Amortization

expense for the year ended December 31, 2000 increased $913,000, or 90%, to $1.9 million from $1.0 million for the year ended December 31, 1999. This increase was primarily due to amortization of goodwill associated with the Porta-Test, MPE and ESI acquisitions. Also, amortization expense increased due to an increase in goodwill related to the acquisition of Cynara in November 1998. Pursuant to the Cynara purchase agreement, we issued 325,836 shares and 418,145 shares of our Class B common stock during September 1999 and June 2000, respectively, to Cynara's former shareholders based upon the achievement of certain performance criteria, and the cost of such shares was charged to goodwill. Interest Expense. Interest expense for the year ended December 31, 2000 decreased $1.7 million, or 52%, to $1.6 million from $3.3 million for the year ended December 31, 1999. This decrease was due primarily to a reduction of long-term debt under our term loan and revolving credit facilities from $31.2 million at December 31, 1999 to $15.0 million at December 31, 2000. We retired $27.9 million of long-term debt under our term loan facility during February 2000 with a portion of the proceeds from our initial public offering. Unusual Charges. Unusual charges for the year ended December 31, 2000 were $1.5 million. The charge was primarily for compensation expense associated with the employment agreement of an executive officer. The terms of the agreement entitled the officer to a sum equal to an outstanding note and accrued interest, totaling $1.2 million at December 31, 1999, upon the sale of our Class A common stock in an initial public offering. We completed our initial public offering on January 27, 2000, and, pursuant to the terms of the agreement, we recorded compensation expense for the amount of the note and accrued interest, including related payroll burdens, totaling $1.3 million. In addition, we recorded relocation expenses totaling $208,000 associated with the consolidation of two facilities following the acquisition of Porta-Test. Revaluation Gain on Postretirement Benefit Liability. In December 2000, we changed our method of accounting for gains and losses on our postretirement benefit obligation. Rather than record gains and losses immediately to the income statement, we now amortize gains or losses that exceed 10% of our accumulated postretirement benefit obligation over the expected remaining lives of the participants. Therefore, we did not record a gain or loss on the revaluation of postretirement benefit liability for the year ended December 31, 2000. During the year ended December 31, 1999, a revaluation gain on postretirement benefit liability of $1.0 million was recorded due to a change in the actuarial discount rate used to calculate the net present value of the underlying liability. Provision for Income Taxes. Income tax expense for the year ended December 31, 2000 increased $3.8 million, or 245%, to $5.3 million from $1.5 million for the year ended December 31, 1999. This increase in income tax expense was primarily due to an increase in income before income taxes, which was $13.0 million for the year ended December 31, 2000 as compared to $2.2 million for the year ended December 31, 1999. This increase in income tax expense was partially offset by a decrease in the effective tax rate from 71% for 1999 to 41% for 2000 primarily due to the impact of non-deductible goodwill amortization expense. Cumulative Effect of Change in Accounting Principle. A gain of $10,000, net of tax, was recorded for the year ended December 31, 2000 related to the cumulative effect of a change in the method used to account for gains and losses on our postretirement benefit obligation. In accordance with APB Opinion No. 20, "Accounting Changes," prior year financial statements were not restated for this change. LIQUIDITY AND CAPITAL RESOURCES As of February 28, 2002, we had cash and working capital of $4.0 million and $38.2 million, respectively. As of December 31, 2001, we had cash and working capital of $3.1 million and $37.1 million, respectively, as compared to $1.0 million and $49.1 million at December 31, 2000, respectively. Net cash provided by (used in) operating activities for the years ended December 31, 2001, 2000 and 1999 was $19.3 million, ($6.3) million and $15.1 million, respectively. The increase in net cash provided by operating activities for fiscal 2001 was primarily due to collection of receivables at Axsia and an increase in advance payments from customers, partially offset by an increase in inventories. 29 Net cash used in investing activities for the years ended December 31, 2001, 2000 and 1999 was $57.7 million, $23.6 million and $2.6 million, respectively. The primary use of funds for the year ended December 31, 2001 was the acquisition of Axsia, which required the use of $48.3 million, and capital expenditures of $10.0 million. Funds for the Axsia acquisition were borrowed under a $50.0 million term loan facility. Capital expenditures for fiscal 2001 were financed with borrowings under our revolving credit facility and cash generated from current operations. The primary use of funds for the year ended December 31, 2000 was the acquisitions of Porta-Test, MPE and ESI, which required the use of $17.1 million, and capital expenditures of $8.1 million. These capital expenditures consisted primarily of renovations and expansions of manufacturing plants, technological improvements to management information systems and acquisitions of and improvements to other equipment, including an upgrade to the membrane manufacturing facility in Pittsburg, California, which was completed in the fourth quarter of 2000. Funds for the Porta-Test acquisition in January 2000 were borrowed from our revolving credit

facility. These funds were repaid during February 2000 with the proceeds from our initial public offering. Funds for the MPE acquisition in February 2000 were also provided by our initial public offering. The ESI acquisition was financed with net borrowings of $7.1 million under the revolving credit facilities. The primary use of funds for the year ended December 31, 1999 was capital expenditures of $3.6 million. Net cash provided by (used in) financing activities for the years ended December 31, 2001, 2000 and 1999 was $41.1 million, $29.7 million and ($13.4) million, respectively. The primary source of funds for financing activities during the year ended December 31, 2001, was borrowings of $50.0 million under the term loan facility, partially offset by principal repayments of $5.3 million under the term loan facility, net repayments of $747,000 under the revolving credit facility, payments on postretirement benefit liability of $1.8 million and repayment of short-term notes of $1.0 million. The primary source of funds for financing activities during the year ended December 31, 2000 was our initial public offering of common stock, which provided net proceeds of $46.7 million. These proceeds were used primarily to retire $27.9 million of outstanding debt under a term loan arrangement, to repay $3.0 million borrowed under the revolving credit agreement for the purchase of Porta-Test and to repay $2.9 million of debt assumed in the acquisitions of Porta-Test and MPE. The use of cash for financing activities during 1999 was due primarily to the repayment of long-term debt. We maintain revolving credit and term loan facilities, as well as a working capital facility for export sales. The term loan provides for up to $50.0 million of borrowings and the revolving credit facilities provide for up to $30.0 million of borrowings in the United States, up to $10.0 million of borrowings in Canada and up to $10.0 million of borrowings in the United Kingdom, subject to borrowing base limitations. The term loan matures on March 15, 2006, and each of the revolving facilities matures on March 15, 2004. At December 31, 2001, we had borrowings outstanding under the term loan facility of $44.8 million and borrowings of $12.8 million outstanding under the revolving credit facility and had issued $19.0 million in outstanding letters of credit under this facility. Amounts borrowed under the term loan portion of this facility currently bear interest at a rate of 4.25% per annum. Amounts borrowed under the revolving portion of this facility will bear interest as follows: - until April 1, 2002, at a rate equal to, at our election, either (1) LIBOR plus 2.25% or (2) a base rate plus 0.75%; and - on and after April 1, 2002, at a rate based upon the ratio of funded debt to EBITDA and ranging from, at our election, (1) a high of LIBOR plus 2.50% to a low of LIBOR plus 1.75% or (2) a high of a base rate plus 1.0% to a low of a base rate plus 0.25%. We will pay commitment fees of 0.50% per year until April 1, 2002 and 0.30% to 0.50% per year, depending upon the ratio of funded debt to EBITDA, on and after April 1, 2002, in each case on the undrawn portion of the facility. The revolving credit and term loan facility is guaranteed by all of our domestic subsidiaries and is secured by a first priority lien on all inventory, accounts receivable and other material tangible and intangible assets. In addition, we have pledged 65% of the voting stock of our active foreign subsidiaries. As of December 31, 2001, 30 we were in compliance with all debt covenants. The weighted average interest rate of our borrowings under the term loan and revolving credit agreement on that date was 4.31%. The export sales credit facility provides for aggregate borrowings of $10.0 million, subject to borrowing base limitations, of which $1.1 million was outstanding as of December 31, 2001. In addition, we had issued letters of credit totaling $361,000 under the export facility as of that date. The export sales credit facility is secured by specific project inventory and receivables and is partially guaranteed by the Export-Import Bank of the United States. The export sales credit facility loans mature in July 2004. At February 28, 2002, borrowing base limitations reduced our available borrowing capacity under the revolving credit facilities and export sales credit agreement to $16.8 million and $2.2 million, respectively. COMMITMENTS AND CONTINGENCIES We have non-cancelable future commitments under debt and operating lease arrangements over the next five years as follows: 2002--$10.9 million; 2003--$10.3 million; 2004--$23.5 million; 2005--$7.8 million; and 2006--$17.5 million. The Porta-Test purchase agreement, executed in January 2000, contains a provision to calculate a payment to certain former stockholders of Porta-Test Systems, Inc. for a three-year period ended January 24, 2003, based upon sales of a limited number of specified products designed by or utilizing technology that existed at the time of the acquisition. Liability under this arrangement is contingent upon attaining certain performance criteria, including gross margins and sales volumes for the specified products. If applicable, payment is required annually. In April 2001, we paid $226,000 under this arrangement related to the year ended January 24, 2001. Any future liabilities incurred under this arrangement will result in an increase in goodwill. We have no special purpose entities or unconsolidated affiliates or partnerships. We believe that our operating cash flow, supported by our available borrowing capacity, will be adequate to fund operations and non-cancelable future commitments under debt and operating lease arrangements throughout 2002. To the extent that management is successful in identifying additional acquisition opportunities during 2002, the ability to

finance these acquisitions with debt and/or equity will be a critical element of the analysis of the opportunities. RELATED PARTY TRANSACTIONS We do not own a minority interest in or guarantee obligations for any related party. There are no debt obligations of related parties for which we have responsibility but were not reported in our balance sheet. We paid Capricorn Management, G.P., an affiliate company of Capricorn Holdings, Inc., for administrative services, which included office space and parking in Connecticut for our Chief Executive Officer, reception, telephone, computer services and other normal office support relating to that space. Mr. Herbert S. Winokur, Jr., one of our directors, is the Chairman and Chief Executive Officer of Capricorn Holdings, Inc., and directly or indirectly controls approximately 31% of our outstanding common stock. In addition, our Chief Executive Officer, Mr. Gregory, is a non-salaried member in Capricorn Holdings LLC, the general partner of Capricorn Investors II, L.P., a private investment partnership. Capricorn Investors II, L.P. controls approximately 20% of our common stock. Fees paid to Capricorn Management totaled $85,000, $75,000 and $75,000 for the years ended December 31, 2001, 2000 and 1999, respectively. Commencing October 1, 2001, the fee increased to $28,750 quarterly due primarily to an upward adjustment in Capricorn Management's underlying lease for office space; this increase was reviewed and approved by the Audit Committee of our Board of Directors. As of December 31, 1999, we recorded a receivable from Capricorn Management for $5,000 related to expenses paid on its behalf. No receivable existed at December 31, 2001 or 2000. Under the terms of an employment agreement in effect prior to 1999, we loaned our Chief Executive Officer $1.2 million in July 1999 to purchase 136,832 shares of common stock. During February 2000, after we completed the initial public offering of our Class A common stock, we paid this executive officer a bonus equal 31 to the principal and interest accrued under this note arrangement and recorded compensation expense of $1.3 million. The officer used the proceeds of this settlement, net of tax, to repay us approximately $665,000. The remaining loan balance, including accrued interest, was $651,000 at December 31, 2001, and continues to accrue interest at 6% annually. In addition, on October 27, 2000, our board of directors agreed to provide a full recourse loan to this executive officer to facilitate the exercise of certain outstanding stock options. This loan matures on July 31, 2003, and provides interest stated at our then-current borrowing rate, and principal equal to the cost to exercise the options plus any personal tax burdens that result from the exercise. As of December 31, 2001, the balance of the note (principal and accrued interest) due from this officer under these loan arrangements was $3.3 million. INFLATION AND CHANGES IN PRICES The costs of materials (e.g., steel) for our products rise and fall with their value in the commodity markets. Generally, increases in raw materials and labor costs are passed on to our customers. RECENT ACCOUNTING PRONOUNCEMENTS In June 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." This standard requires that any business combination initiated after June 30, 2001 be accounted for using the purchase method of accounting. This standard became effective on July 1, 2001. We adopted this standard on July 1, 2001, with no material effect on its financial condition or results of operations. The FASB approved SFAS No. 142, "Goodwill and Other Intangible Assets" in June 2001. This pronouncement requires that intangible assets with indefinite lives, including goodwill, cease being amortized and be evaluated on an impairment basis. Intangible assets with a defined term, such as patents, would continue to be amortized over the useful life of the asset. This pronouncement becomes effective on January 1, 2002, for companies with a calendar year end. We had net goodwill of $79.9 million as of December 31, 2001. Goodwill amortization totaled $3.7 million for the year ended December 31, 2001. We have not yet determined the impact that this pronouncement will have on our financial condition or results of operations. As permitted by the standard, we will determine and quantify our exposure under this pronouncement during fiscal 2002, after completing the required impairment testing. In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard provides guidance on reporting and accounting for obligations associated with the retirement of long-lived tangible assets and the associated retirement costs. This standard is effective for financial statements issued for fiscal years beginning after June 15, 2002. We have not yet determined the impact that this pronouncement will have on our financial condition or results of operations. In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and standardizes the accounting model to be used for asset dispositions and related implementation issues. This pronouncement becomes effective for financial statements issued for fiscal years beginning after December 15, 2001. We have not yet determined the impact that this pronouncement will have on our financial condition or results of operations. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET

RISK Our operations are conducted around the world in a number of different countries. Accordingly, our earnings are exposed to changes in foreign currency exchange rates. The majority of our foreign currency transactions relate to operations in Canada and the U.K. At NATCO Canada, most contracts are denominated in Canadian dollars, and most of the costs incurred are in Canadian dollars, thereby mitigating risks associated with currency fluctuations. At Axsia, which is our U.K.-based operation acquired in March 2001, many contracts are denominated in U.S. dollars, and occasionally in euros, whereas most of the costs may be in British pounds sterling. Consequently, we have some currency risk in our U.K. operations. Prior to the date of acquisition, Axsia had entered into certain forward contract arrangements whereby it sold 32 U.S. dollars for future delivery at a specified strike price, in order to hedge exposure to currency fluctuations on contracts denominated in U.S. dollars. During the third and fourth quarters of 2001, we paid approximately $249,000 to terminate these forward contracts. No forward contracts or other derivative arrangements existed at December 31, 2001, and we do not currently intend to enter into new forward contracts or other derivative arrangements as part of our currency risk management strategy. Our financial instruments are subject to changes in interest rates, including our revolving credit and term loan facility and our working capital facility for export sales. At December 31, 2001, we had $44.8 million outstanding under the term loan portion of the revolving credit and term loan facility. At December 31, 2001, outstanding borrowings under our revolving credit agreement totaled $12.8 million. Borrowings under our revolving credit agreement bear interest at floating rates. As of December 31, 2001, the weighted average interest rate of borrowings under the revolving credit and term loan facility was 4.31%. Borrowings outstanding under the export sales credit facility were $1.1 million at December 31, 2001, and bore interest at 4.75%. Based on past market movements and possible near-term market movements, we do not believe that potential near-term losses in future earnings, fair values or cash flows from changes in interest rates are likely to be material. Assuming our current level of borrowings, as of December 31, 2001, a 100 basis point increase in interest rates under the borrowings would decrease our current year net income and cash flow from operations by less than $350,000. This calculation assumes no action on our part to mitigate our exposure. Furthermore, this calculation does not consider the effects of a possible change in the level of overall economic activity that could exist in such an environment. ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA To follow are our consolidated financial statements for the years ended December 31, 2001, 2000 and 1999, as applicable, along with the Independent Auditors' report: 33 INDEPENDENT AUDITORS' REPORT The Board of Directors NATCO Group Inc.: We have audited the accompanying consolidated balance sheets of NATCO Group Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the three years ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NATCO Group Inc. and subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for the years ended December 31, 2001, 2000 and 1999, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 15 to the Consolidated Financial Statements, the Company changed its method of accounting for postretirement benefits in January 2000. KPMG LLP Houston, Texas February 18, 2002 34 NATCO GROUP INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA) DECEMBER 31, DECEMBER 31, 2001 2000 ------------ ------------ ASSETS Current assets: Cash and cash equivalents................................ $ 3,093 $ 1,031 Trade accounts receivable, less allowance for doubtful accounts of $905 and $1,142 as of December 31, 2001 and 2000, respectively.................................... 67,922 53,807 Inventories... 37,517 28,677 Deferred income tax assets, net.......................... 3,693 1,745 Income tax receivable.................................... 993 178 Prepaid expenses and other current assets................. 2,039 1,042 -------- -------- Total current assets.................................. 115,257 86,480 Property, plant and equipment, net.......................... 31,003 23,430 Goodwill... 79,907 36,534 Deferred income tax assets, net............................ 4,378

5,409 Other assets, net... 2,206 1,273 -------- -------- Total assets... $232,751 $153,126 ======== ======== LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Current installments of long-term debt................... $ 7,000 $ -- Notes payable... -- 1,005 Accounts payable... 30,440 23,133 Accrued expenses and other............................... 34,781 12,098 Customer advances.. 5,925 1,163 -------- -------- Total current liabilities............................. 78,146 37,399 Long-term debt, excluding current installments............. 51,568 14,959 Postretirement and other long-term liabilities............. 14,107 14,589 -------- -------- Total liabilities..................................... 143,821 66,947 -------- -------- Stockholders' equity: Preferred stock $.01 par value. 5,000,000 shares authorized; no shares outstanding..................... -- -- Class A Common stock, $.01 par value. Authorized 45,000,000 shares; issued and outstanding 15,469,078 and 14,977,354 shares as of December 31, 2001 and 2000, respectively... 155 150 Class B Common stock, $.01 par value. Authorized 5,000,000 shares; issued and outstanding 334,719 and 699,874 shares as of December 31, 2001 and 2000, respectively... 3 7 Additional paid-in capital............................... 97,223 96,601 Accumulated deficit..................................... 4,857 (506) Treasury stock, 795,692 and 677,238 shares at cost as of December 31, 2001, and 2000, respectively............. (7,182) (6,316) Accumulated other comprehensive loss..................... (2,858) (1,864) Note receivable from officer and stockholder............. (3,268) (1,893) -------- -------- Total stockholders' equity............................ 88,930 86,179 -------- -------- Commitments and contingencies Total liabilities and stockholders' equity............. $232,751 $153,126 ======== ======== See accompanying notes to consolidated financial statements. 35 NATCO GROUP INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA) FOR THE FOR THE FOR THE YEAR ENDED YEAR ENDED YEAR ENDED DECEMBER 31, DECEMBER 31, DECEMBER 31, 2001 2000 1999 ------------ ------------ ------------ Revenues... $286,582 $224,552 $169,948 Cost of goods sold................................ 210,512 162,757 127,609 -------- -------- -------- Gross profit.................................... 76,070 61,795 42,339 Selling, general and administrative expense........ 51,471 39,443 32,437 Depreciation and amortization expense............. 8,143 5,111 4,681 Unusual charges.................................. 1,600 1,528 -- Interest expense.................................. 4,941 1,588 3,256 Interest cost on postretirement benefit liability...................................... 888 1,287 1,048 Revaluation loss (gain) on postretirement benefit liability...................................... -- -- (1,016) Interest income.................................. (660) (181) (256) Other expense, net................................ 429 13 -- -------- -------- -------- Income from continuing operations before income taxes and change in accounting principle...... 9,258 13,006 2,189 Income tax provision.............................. 3,895 5,345 1,548 -------- -------- -------- Income before cumulative effect of change in accounting principle............................ 5,363 7,661 641 Cumulative effect of change in accounting principle (net of income taxes of $7)..................... -- 10 -- -------- -------- -------- Net income..................................... $ 5,363 $ 7,671 $ 641 ======== ======== ======== Earnings per share--basic: Net income before cumulative effect of change in accounting principle............................ $ 0.34 $ 0.52 $ 0.07 Cumulative effect of change in accounting principle...................................... -- -- -- -------- -------- -------- Net income..................................... $ 0.34 $ 0.52 $ 0.07 ======== ======== ======== Earnings per share--diluted: Net income before cumulative effect of change in accounting principle............................ $ 0.34 $ 0.51 $ 0.06 Cumulative effect of change in accounting principle...................................... -- -- -- -------- -------- -------- Net income..................................... $ 0.34 $ 0.51 $ 0.06 ======== ======== ======== Basic weighted average number of shares of common stock outstanding.............................. 15,722 14,653 9,302 Diluted weighted average number of shares of common stock outstanding.............................. 15,966 15,158 9,953 Pro forma net income (retroactive of change in accounting principle): Net income..................................... $ 43 Earnings per share--basic....................... $ -- Earnings per share--diluted..................... $ -- See accompanying notes to consolidated financial statements. 36 NATCO GROUP INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (DOLLARS IN THOUSANDS) COMMON COMMON STOCK STOCK ACCUMULATED SHARES CLASS ADDITIONAL ACCUMULATED OTHER -------------------- ---------- PAID-IN EARNINGS/ TREASURY COMPREHENSIVE A B A B CAPITAL DEFICIT STOCK LOSS ---------- -------- ---- --- ---------- ---------- -------- ------------ Balances at December 31, 1998... 8,650,688 500,000 $ 86 $ 5 $38,888 $(8,818) $(4,550) $(1,421) Issue common stock for acquisition.................. -- 325,836 -- 3 3,419 -- -- -- Stock options repurchased....... -- -- -- -- (237) -- -- -- Stock subscription............. 136,832 -- 2 -- 1,203 -- -- -- Interest on stock subscription note receivable.............. -- -- -- -- -- -- -- -- Comprehensive income Net

income.................. -- -- -- -- -- 641 -- -- Foreign currency translation adjustment................. -- -- -- -- -- -- -- 535 Total comprehensive income...... -- -- -- -- -- -- -- -- --------- -------- ---- --- ------- ------- ------- ------- Balances at December 31, 1999... 8,787,520 825,836 $ 88 $ 8 $43,273 $(8,177) $(4,550) $ (886) Issue common stock in connection with initial public offering..................... 5,532,904 (354,097) 55 (3) 46,632 -- -- -- Conversion of Class B shares to Class A shares............... 190,010 (190,010) 2 (2) -- -- -- -- Issue common stock for acquisition.................. -- 418,145 -- 4 4,073 -- -- -- Issue treasury shares as partial settlement of a note from director note receivable...... (173,050) -- (2) -- -- -- (1,523) -- Treasury shares reacquired...... (34,000) -- -- -- -- -- (243) -- Issue stock subscription note receivable................... -- -- -- -- 1,260 -- -- -- Interest on stock subscription note receivable.............. -- -- -- -- -- -- -- -- Receipt for stock subscribed note receivable.............. -- -- -- -- -- -- -- -- Issuances related to benefit plans........................ 673,970 -- 7 -- 1,363 -- -- -- Comprehensive income Income before cumulative effect of change in accounting principle........ -- -- -- -- -- 7,661 -- -- Cumulative effect of change in accounting principle........ ---- -- -- -- -- -- 10 -- Foreign currency translation -- adjustment................. -- -- -- -- -- -- (978) -- Total comprehensive income...... -- -- -- -- -- -- -- -- --------- -------- ---- --- ------- ------- ------- ------- 14,977,354 699,874 $150 $ 7 $96,601 $ (506) $(6,316) $(1,864) Balances at December 31, 2000... Conversion of Class B shares to 373,675 (373,675) 4 (4) -- -- -- -- Class A shares............... Issue common stock for -- 8,520 -- -- 85 -- -- -- acquisition.................. (118,454) -- (1) -- -- -- (866) -- Treasury shares reacquired...... Issue note receivable to -- -- -- -- -- -- -- -- stockholder.................. Interest on stock subscription -- -- -- -- -- -- -- -- note receivable.............. Issuances related to benefit 236,503 -- 2 -- 537 -- -- -- plans........................ Comprehensive income -- -- -- -- -- 5,363 -- -- Net income................... Foreign currency translation -- -- -- -- -- -- -- (994) adjustment................. -- -- -- -- -- -- -- -- Total comprehensive income...... --------- -------- ---- --- ------- ------- ------- ------- 15,469,078 334,719 $155 $ 3 $97,223 $ 4,857 $(7,182) $(2,858) Balances at December 31, 2001... ========= ======== ==== === ======= ======= ======= ======= NOTE TOTAL RECEIVABLE STOCKHOLDERS FROM EQUITY STOCKHOLDER (DEFICIT) ----------- ----------- Balances at December 31, 1998... -- 24,190 Issue common stock for acquisition.................. -- 3,422 Stock options repurchased....... -- (237) Stock subscription............. (1,205) -- Interest on stock subscription note receivable.............. (37) (37) Comprehensive income Net income................... -- 641 Foreign currency translation adjustment................. -- 535 ------ Total comprehensive income...... -- 1,176 ------ ------ Balances at December 31, 1999... (1,242) 28,514 Issue common stock in connection with initial public offering..................... -- 46,684 Conversion of Class B shares to Class A shares............... -- -- Issue common stock for acquisition.................. -- 4,077 Issue treasury shares as partial settlement of a note from director note receivable...... -- (1,525) Treasury shares reacquired...... -- (243) Issue stock subscription note receivable................... (1,260) -- Interest on stock subscription note receivable.............. (56) (56) Receipt for stock subscribed note receivable.............. 665 665 Issuances related to benefit plans........................ -- 1,370 Comprehensive income Income before cumulative effect of change in accounting principle........ -- 7,661 Cumulative effect of change in accounting principle........ -- 10 Foreign currency translation adjustment................. -- (978) ------ 6,693 Total comprehensive income...... -- ------ ------ (1,893) 86,179 Balances at December 31, 2000... Conversion of Class B shares to -- -- Class A shares............... Issue common stock for -- 85 acquisition.................. -- (867) Treasury shares reacquired...... Issue note receivable to (1,178) (1,178) stockholder.................. Interest on stock subscription (197) (197) note receivable.............. Issuances related to benefit -- 539 plans........................ Comprehensive income -- 5,363 Net income................... Foreign currency translation -- (994) adjustment................. ------ -- 4,369 Total comprehensive income...... ------ ------ (3,268) 88,930 Balances at December 31, 2001... ====== ====== See accompanying notes to consolidated financial statements. 37 NATCO GROUP INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (DOLLARS IN THOUSANDS) FOR THE YEAR ENDED FOR THE YEAR ENDED FOR THE YEAR ENDED DECEMBER 31, DECEMBER 31, DECEMBER 31, 2001 2000 1999 ----------------- ----------------- ----------------- Cash flows from operating activities: Net income... $ 5,363 $ 7,671 $ 641 Adjustments to reconcile net income to net cash provided by (used in) operating activities: Deferred income tax provision....................... (733) 1,611 1,107 Depreciation and amortization expense............... 8,143 5,111 4,681 Noncash interest income............................ (197) (85) (211) Interest cost on postretirement benefit liability.... 888 1,287 1,048 Gain on sale of property, plant and equipment........ (141) (110) (560) Gain on revaluation of postretirement benefit liability.. -- -- (1,016) Cumulative effect of change in accounting principle.. (10) -- Change in assets and liabilities: Decrease in restricted cash....................... -- -- 883 (Increase) decrease in trade accounts receivable... 19,908 (14,230) 9,296 (Increase) decrease in

inventories................ (8,004) (6,647) 2,858 (Increase) decrease in prepaid and other current assets.. 141 (482) 391 Increase (decrease) in other income taxes.......... (826) 633 234 (Increase) decrease in long-term assets............ (1,935) 418 (111) Increase (decrease) in accounts payable............ (1,818) 4,221 (3,707) Decrease in accrued expenses and other............. (6,325) (819) (2,852) Increase (decrease) in customer advances........... 4,804 (4,819) 2,415 -------- -------- -------- Net cash provided by (used in) operating activities................................... 19,268 (6,250) 15,097 -------- -------- -------- Cash flows from investing activities: Capital expenditures for property, plant and equipment.. (10,023) (8,137) (3,593) Proceeds from sales of property, plant and equipment... 268 575 977 Acquisitions, net of working capital acquired.......... (48,285) (17,126) -- Issuance of related party note receivable.............. (1,178) -- -- Repayment of related party note receivable............. -- 1,059 -- Proceeds from claim settlement........................ 1,500 -- -- -------- -------- -------- Net cash used in investing activities............ (57,718) (23,629) (2,616) -------- -------- -------- Cash flows from financing activities: Net repayments under revolving credit agreements....... -- -- (1,585) Change in bank overdrafts.............................. 26 2,864 (1,878) Net borrowing (repayments) under long-term revolving credit facilities................................... (747) 8,932 (3,852) Repayment of short-term notes payable................. (1,001) -- -- Borrowings of long-term debt.......................... 50,000 -- -- Repayment of long-term debt........................... (5,250) (27,858) (5,357) Issuance of common stock, net......................... 1 46,894 -- Net payments on postretirement benefit liability....... (1,787) (1,772) (524) Receipt as partial payment of the net present value of postretirement benefit liability of affiliate........ -- 600 475 Receipt of postretirement benefit cost reimbursement from predecessor company............................ 79 -- -- Treasury stock reacquired............................. (867) (243) -- Other, principally bank and IPO fees.................. 659 285 (686) -------- -------- -------- Net cash provided by (used in) financing activities.................................... 41,113 29,702 (13,407) -------- -------- -------- Effect of exchange rate changes on cash and cash equivalents... (601) (539) 293 -------- -------- -------- Increase (decrease) in cash and cash equivalents......... 2,062 (716) (633) Cash and cash equivalents at beginning of period......... 1,031 1,747 2,380 -------- -------- -------- Cash and cash equivalents at end of period.............. $ 3,093 $ 1,031 $ 1,747 ======== ======== ======== Cash payments for: Interest... $ 3,977 $ 1,061 $ 3,285 Income taxes.. $ 1,791 $ 1,903 $ 751 Significant non cash investing and financing activities: Issuance of common stock for acquisition.............. $ 85 $ 4,077 $ 3,422 Debt assumed in acquisition........................... $ -- $ 2,862 -- Partial settlement of note arrangement with treasury shares.. $ -- $ 1,525 -- Promissory note issued for business acquisition........ $ -- $ 1,026 -- Related party note receivable issued for stock subscribed.. $ -- $ 1,260 -- See accompanying notes to consolidated financial statements. 38 NATCO GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (1) ORGANIZATION NATCO Group Inc. ("NATCO") was formed in June 1988 by Capricorn Investors, L.P., which led a group of investors who provided capital for the Company to acquire several businesses from Combustion Engineering, Inc. ("C-E"). On June 21, 1989, the Company acquired from C-E all of the outstanding common stock of W.S. Tyler, Incorporated ("Tyler"), and National Tank Company, as well as the net assets of certain foreign affiliates. During 1992, NATCO contributed its common stock investment in Tyler and $5.5 million in cash to Process Technology Holdings, Inc. ("PTH") in exchange for all of the issued and outstanding common stock of PTH. In 1992 and 1993, PTH and NATCO sold certain shares of PTH common stock to third parties and, during 1997, the Company completed a tax-free spin off of PTH to its stockholder. On June 30, 1997, NATCO acquired Total Engineering Services Team, Inc. ("TEST"), and on November 18, 1998, NATCO acquired The Cynara Company ("Cynara"). The Company acquired Porta-Test International, Inc. ("Porta-Test") on January 24, 2000. On January 27, 2000, the Company completed an initial public offering of 7,500,000 shares of its Class A common stock at a price of $10.00 per share (4,053,807 shares issued by the Company and 3,446,193 shares issued by selling stockholders). On February 3, 2000, the underwriter exercised its over-allotment option that resulted in the issuance of 1,125,000 additional shares of Class A common stock. On February 8, 2000 and April 4, 2000, NATCO acquired Modular Production Equipment, Inc. ("MPE") and Engineering Specialties, Inc. ("ESI"), respectively. On March 19, 2001, NATCO acquired Axsia Group Limited ("Axsia"), a privately held process and design company based in the United Kingdom. The accompanying consolidated financial statements and all related disclosures include the results of operations of the Company and its majority-owned subsidiaries for the years ended December 31, 2001, 2000 and 1999. Furthermore, certain reclassifications have been made to fiscal 2000 and fiscal 1999 amounts in order to present these results on a comparable basis with amounts for fiscal 2001. References to "NATCO" and "the Company" are used throughout this

document and relate collectively to NATCO Group Inc. and its consolidated subsidiaries. (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. Significant inter-company accounts and transactions have been eliminated in consolidation. Concentration of Credit Risk. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base and their geographic dispersion. For the years ended December 31, 2001 and 1999, no customer provided more than 10% of revenues. However, during fiscal 2000, Carigali-Triton Operating Company, SDN BHD ("CTOC") through its general contractor, Samsung, provided revenues of $45.9 million or approximately 20% of total revenues, pursuant to a large project awarded in July 1999. No other customer provided more than 10% of revenues for the year ended December 31, 2000. See Note 21, Industry Segments and Geographic Information. Cash Equivalents. The Company considers all highly liquid investment instruments with original maturities of three months or less to be cash equivalents. 39 Restricted Cash. At December 31, 1998 cash in the amount of $883,000 was pledged as collateral on outstanding letters of credit related to performance and warranty guarantees, and was classified as restricted cash on the balance sheet. No restricted cash existed at December 31, 2001, 2000 or 1999. Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the last in, first out ("LIFO") method for NATCO domestic inventories, average cost for TEST inventories and the first in, first out ("FIFO") method for all other inventories. Property, Plant and Equipment. Property, plant and equipment are stated at cost less an allowance for depreciation. Depreciation on plant and equipment is calculated using the straight-line method over the assets' estimated useful lives. Maintenance and repair costs are expensed as incurred; renewals and betterments are capitalized. Upon the sale or retirement of properties, the accounts are relieved of the cost and the related accumulated depreciation, and any resulting profit or loss is included in income. The carrying values of property, plant and equipment by location are reviewed annually and more often if there are indications that these assets may be impaired. Goodwill. Goodwill is being amortized on a straight-line basis over periods of 20 to 40 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization over its remaining life can be recovered through undiscounted future operating cash flows. Based on its most recent analysis, the Company's management believes that no material impairment of goodwill exists at December 31, 2001. Amortization expense for the years ended December 31, 2001, 2000 and 1999 was $3.7 million, $2.0 million and $739,000, respectively. Accumulated amortization at December 31, 2001 and 2000 was $6.4 million and $2.8 million, respectively. Other Assets, Net. Other assets consist of prepaid pension assets, long-term deposits, deferred financing costs and covenants not to compete. Deferred financing costs and covenants not to compete are being amortized over the term of the related agreements. Amortization expense for the years ended December 31, 2001, 2000 and 1999 was $932,000, $554,000 and $570,000, respectively. Environmental Remediation Costs. The Company accrues environmental remediation costs based on estimates of known environmental remediation exposure. Such accruals are recorded when the cost of remediation is probable and estimable, even if significant uncertainties exist over the ultimate cost of the remediation. Ongoing environmental compliance costs, including maintenance and monitoring costs, are expensed as incurred. Revenue Recognition. Revenues from significant contracts (NATCO contracts greater than $250,000 and longer than four months in duration and all TEST contracts and orders) are recognized on the percentage of completion method. Earned revenue is based on the percentage that incurred costs to date bear to total estimated costs after giving effect to the most recent estimates of total cost. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the year in which the changes become known. Earned revenue reflects the original contract price adjusted for agreed claims and change order revenues, if any. Losses expected to be incurred on jobs in progress, after consideration of estimated minimum recoveries from claims and change orders, are charged to income as soon as such losses are known. Customers typically retain an interest in uncompleted projects. Other revenues and related costs are recognized when products are shipped or services are rendered to the customer. Stock-Based Compensation. Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 allows entities to continue to apply the provisions of Accounting Principles Board ("APB") Opinion No. 25 and provide pro forma net income and earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provision of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123. Research and Development. Research and development costs are

charged to operations in the year incurred. The cost of equipment used in research and development activities, which has alternative uses, is 40 capitalized as equipment and not treated as an expense of the period. Such equipment is depreciated over estimated lives of 5 to 10 years. Research and development expenses totaled $2.1 million, $1.8 million and $1.9 million for the years ended December 31, 2001, 2000 and 1999, respectively. Warranty Costs. Estimated future warranty obligations related to products are charged to cost of goods sold in the period in which the related revenue is recognized. Additionally, the Company provides some of its customers with letters of credit covering potential warranty claims. At December 31, 2001 and 2000, the Company had $5.4 million and $931,000, respectively, in outstanding letters of credit related to warranties. Income Taxes. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the future generation of taxable income during the periods in which those temporary differences become deductible. Management has considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Derivative Arrangements. Assets and liabilities associated with and underlying derivative arrangements which do not qualify for hedge value accounting are recorded at fair market value as of the balance sheet date with any changes in fair value charged to income in the current period, in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company recorded a charge of $249,000 to exit certain derivative arrangements that were acquired with the purchase of Axsia in March 2001. The Company had no derivative financial instruments as of December 31, 2001, 2000 or 1999. Translation of Foreign Currencies. Financial statement amounts related to foreign operations are translated into their United States dollar equivalents at exchange rates as follows: (1) balance sheet accounts at year-end exchange rates, and (2) statement of operations accounts at the weighted average exchange rate for the period. The gains or losses resulting from such translations are deferred and included in accumulated other comprehensive loss as a separate component of stockholders' equity. Gains or losses from foreign currency transactions are reflected in the consolidated statements of operations. Use of Estimates. The Company's management has made estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and the amounts of revenues and expenses recognized during the period to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates. Earnings per Common Share. Basic earnings per share excludes the dilutive effect of common stock equivalents. The diluted earnings per common and common equivalent share are computed by dividing net income by the weighted average number of common and common equivalent shares outstanding. For the purposes of this calculation, outstanding employee stock options are considered common stock equivalents. In conformity with Securities and Exchange Commission requirements, common stock, options and warrants, or other potentially dilutive instruments which have been issued for nominal consideration during the periods covered by the income statements presented, are reflected in earnings per share calculations for all periods presented. Anti-dilutive stock options were excluded from the calculation of common stock equivalents. The impact of these anti-dilutive shares would have been a reduction of 145,000 shares and 36,000 shares for the years ended December 31, 2001 and 2000, respectively. There were no anti-dilutive stock options for the year ended December 31, 1999. 41 The following table presents earnings per common share amounts computed using SFAS No. 128: NET PER SHARE PERIOD ENDED INCOME SHARES AMOUNTS ------------ ------ ------ --------- (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS) Year ended December 31, 1999 Basic EPS.. $ 641 9,302 $0.07 Effect of dilutive securities Options.. -- 651 (0.01) ------ ------ ----- Diluted EPS.. $ 641 9,953 $0.06 ====== ====== ===== Year ended December 31, 2000 Basic EPS.. $7,671 14,653 $0.52 Effect of dilutive securities Options... -- 505 (0.01) ------ ------ ----- Diluted EPS... $7,671 15,158 $0.51 ====== ====== ===== Year ended December 31, 2001 Basic EPS.. $5,363 15,722 $0.34 Effect of dilutive securities Options... -- 244 -- ------ ------ ----- Diluted EPS... $5,363

15,966 $0.34 ====== ====== ===== (3) CAPITAL STOCK On November 18, 1998, the Company's charter was amended to divide its common stock into two classes: Class A common stock (45,000,000 shares) and Class B common stock (5,000,000 shares). The two classes of common stock have the same relative rights and preferences except the holders of the Class B common stock have the right, voting separately as a class, to elect one member of the Company's board of directors. Class B shares may be converted by the holder to Class A shares at any time, and will automatically convert to Class A shares on January 1, 2002. On January 27, 2000, the Company completed an initial public offering of 7,500,000 shares of Class A common stock at a price of $10.00 per share (4,053,807 shares issued by the Company and 3,446,193 shares issued by selling stockholders). The proceeds to the Company, less underwriting fees, were $37.7 million. These funds were used to retire debt of $27.9 million under the term loan facility, to repay borrowings of $3.0 million under the revolving credit facility used to acquire Porta-Test, to retire $2.2 million of Porta-Test debt acquired, to pay offering costs of $1.5 million and to fund other working capital needs. On February 3, 2000, the underwriter exercised its over-allotment option, which resulted in the issuance of 1,125,000 additional shares of Class A common stock and proceeds of $10.5 million, net of underwriter's fees. Proceeds from the over-allotment were used to complete the acquisition of MPE including the repayment of $685,000 of debt acquired, and for other working capital needs. During 1997, the Company provided a loan of $1.5 million (at an interest rate of 10% per annum) to a director of the Company who is also an affiliate of Capricorn Holdings, Inc. In March 1998, the related promissory note was amended to change the interest rate to 11% per annum. The principal was to be due on the date on which Capricorn Holdings, Inc. distributed its holdings of NATCO's common stock to its partners. During 1998, the Company acquired an option at a cost of approximately $200,000 to purchase 173,050 shares of NATCO's common stock from the director at a price of $8.81 per share. At the Company's option, the note provided that the obligation could be repaid with shares of NATCO's common stock. The cost to acquire this option was recorded as treasury stock in the accompanying consolidated balance sheets. During February 2000, the Company exercised its option to acquire 173,050 shares of NATCO's 42 Class A common stock from the director for $1.5 million, which reduced the note due from the director by the same amount. The shares were recorded as treasury stock at cost in the accompanying consolidated balance sheet. The balance of the note due from the director was repaid in June 2000. In February 2001, June 2000 and September 1999, the Company issued 8,520 Class B shares, 418,145 Class B shares and 325,836 Class B shares, respectively, to the former shareholders of Cynara, in connection with the achievement of certain performance criteria defined in the November 1998 purchase agreement. Goodwill was increased $85,000 in 2001, $4.1 million in 2000 and $3.4 million in 1999, as a result of these transactions. In October 2000, the Company's board of directors approved a stock repurchase plan under which up to 750,000 shares of the Company's Class A common stock could be acquired. During fiscal 2001, the Company reacquired approximately 118,000 shares of its Class A common stock under this repurchase agreement for $867,000, an average cost of $7 per share. During 2000, the Company reacquired 34,000 shares of its Class A common stock under this repurchase plan for $243,000, an average cost of $7 per share. The cost to reacquire these shares was recorded as treasury stock at December 31, 2001 and 2000, respectively. (4) ACQUISITIONS In November 1998, the Company completed the acquisition of Cynara from a group of private investors for $5.3 million in cash, the assumption of $10.1 million in Cynara bank debt, and the issuance of 500,000 shares of NATCO Class B common stock valued at $5.3 million. The purchase agreement also stipulated that NATCO may be required to issue up to an additional 1,400,000 shares of Class B common stock to Cynara's former shareholders based on certain performance criteria defined in the purchase agreement. The Company issued 325,836 Class B shares, 418,145 Class B shares and 8,520 Class B shares in September 1999, June 2000 and February 2001, respectively, as per this agreement, which resulted in an increase in goodwill. See Note 3, Capital Stock. The funds used for the acquisition of Cynara were provided by $5.3 million of equity and proceeds of borrowings from a senior credit facility provided by a syndicate of major international banks. The acquisition was accounted for as a purchase and the results of Cynara have been included in the consolidated financial statements since the date of acquisition. Goodwill at December 31, 2001 and 2000 was $17.6 million. Accumulated amortization was $2.3 million and $1.4 million for the respective periods. The Company acquired all the outstanding common stock of Porta-Test on January 24, 2000, for approximately $6.3 million in cash, net of cash acquired, which included payment of specific accrued liabilities of the former company and the purchase of certain proprietary intellectual property of an associated U.S. company, the issuance of a one-year promissory note for $1.0 million denominated in Canadian dollars and a payment contingent upon certain operating criteria being met. See Note 18, Commitments and Contingencies. This acquisition has been accounted for using the purchase method of accounting, and results of

operations for Porta-Test have been included in NATCO's consolidated financial statements since the date of acquisition. The excess of the purchase price over the fair values of the net assets acquired is being amortized over a twenty-year period. Goodwill and accumulated amortization related to the Porta-Test acquisition were $5.3 million and $528,000, respectively, at December 31, 2001. The Company acquired all the outstanding common stock of MPE on February 8, 2000, for approximately $2.4 million in cash, net of cash acquired, and the issuance of a one-year promissory note for $338,000, which accrued interest at 10% per annum. This acquisition has been accounted for using the purchase method of accounting, and results of operations for MPE have been included in NATCO's consolidated financial statements since the date of acquisition. The excess of the purchase price over the fair values of the net assets acquired is being amortized over a twenty-year period. Goodwill and accumulated amortization related to the MPE acquisition were $3.4 million and $338,000, respectively, at December 31, 2001. The Company acquired all the outstanding common stock of ESI on April 4, 2000 for approximately $7.1 million, net of cash and cash equivalents acquired, subject to adjustment. This acquisition, which was financed with borrowings of $7.1 million under the existing revolving credit facility and borrowings of $2.6 million under the existing export sales facility, was accounted for using the purchase method of 43 accounting, and results of operations for ESI have been included in NATCO's consolidated financial statements since the date of acquisition. The excess of the purchase price over the fair values of the net assets acquired is being amortized over a twenty-year period. Goodwill and accumulated amortization related to the ESI acquisition were $6.0 million and $510,000, respectively, at December 31, 2001. On March 19, 2001, the Company acquired all the outstanding share capital of Axsia, for approximately $42.8 million, net of cash acquired. Axsia specializes in the design and supply of water reinjection systems for oil and gas fields, oily water treatment, oil separation, hydrocyclone technology, hydrogen production and other process equipment systems. This acquisition was financed with borrowings under NATCO's term loan facility and was accounted for using the purchase method of accounting. Results of operations for Axsia have been included in NATCO's consolidated financial statements since the date of acquisition. The purchase price of $45.0 million was allocated as follows: $2.2 million of cash acquired, $38.4 million of current assets excluding cash, $2.0 million of long-term assets excluding goodwill and $46.0 million of current liabilities. The excess of the purchase price over the fair value of the net assets acquired is being amortized over a twenty-year period. Goodwill and accumulated amortization expense related to the Axsia acquisition were $48.4 million and $1.9 million, respectively, at December 31, 2001. Although the Axsia purchase price allocation has not yet been finalized, NATCO's management does not believe that the final purchase price allocation will differ materially from that as of December 31, 2001. Assuming the Axsia acquisition occurred on January 1 of the respective year, the unaudited pro forma results of the Company for the twelve months ended December 31, 2001, and 2000, respectively, would have been as follows: PRO FORMA RESULTS TWELVE MONTHS ENDED ----------------------------------- DECEMBER 31, 2001 DECEMBER 31, 2000 ---------------------------------- (UNAUDITED) (UNAUDITED) Revenues.. $301,529 $287,403 Income before income taxes and cumulative effect of change in accounting principle....................... 6,540 13,232 Net income.. 3,428 6,794 Net income per share: Basic.. $ 0.22 $ 0.46 Diluted... $ 0.21 $ 0.45 These pro forma results assume debt service costs associated with the Axsia acquisition, net of tax effect, calculated at the Company's effective tax rate for the applicable period, and nondeductible goodwill amortization. Although prepared on a basis consistent with NATCO's consolidated financial statements, these pro forma results do not purport to be indicative of the actual results which would have been achieved had the acquisition been consummated on January 1 of the respective year, and are not intended to be a projection of future results. Effective January 8, 2001, the Company entered into a Compromise Settlement Agreement with the former owner of TEST, which resulted in a cash payment of $1.5 million to NATCO on May 31, 2001, to settle certain contingencies related to NATCO's acquisition of TEST in 1997. The proceeds of this payment, net of related costs, were used to reduce goodwill associated with the TEST acquisition. (5) UNUSUAL CHARGES In June 2001, the Company recorded an unusual charge of $1.6 million. The charge consisted of $920,000 pursuant to an approved plan to close and merge an existing NATCO office into the operations of Axsia, as well as other streamlining actions associated with the acquisition. This charge included costs for severance, office consolidation and other expenses. Also, the Company withdrew a public debt offering and recorded an unusual charge of $680,000 for costs incurred related to the proposed offering. Pursuant to an employment agreement, an executive officer was entitled to a bonus upon the occurrence of any sale or public offering of the Company. The bonus equaled one and one-half percent (1.5%) of the 44 value of all securities owned by stockholders of the Company prior to the sale or

offering, including common stock valued at the price per share received in either the sale or public offering, and any debt held by such stockholders. In July 1999, the Company amended the employment agreement to eliminate the bonus and agreed to loan the officer $1.2 million to purchase 136,832 shares of common stock. Per the agreement, the officer would receive a bonus equal to the outstanding principal and interest of the note upon the sale or public offering of the Company. During February 2000, after the Company completed an initial public offering of its Class A common stock, NATCO recorded expense of $1.3 million in settlement of its obligation under this agreement. The officer used the proceeds, net of tax, to repay the Company approximately $665,000. The outstanding balance of this note at December 31, 2001, was $651,000. The loan accrues interest at 6% annually. During the first quarter of 2000, NATCO incurred relocation charges of approximately $208,000 associated with the consolidation of an existing Company facility with a facility that was acquired in connection with the acquisition of Porta-Test. (6) INVENTORIES Inventories consisted of the following amounts: DECEMBER 31, DECEMBER 31, 2001 2000 ------------ ------------ (IN THOUSANDS) Finished goods.. $ 9,902 $ 7,641 Work-in-process... 13,441 10,403 Raw materials and supplies................................ 15,242 11,203 ------- ------- Inventories at FIFO..................................... 38,585 29,247 Excess of FIFO over LIFO cost.............................. (1,068) (570) ------- ------- $37,517 $28,677 ======= ======= At December 31, 2001 and 2000, inventories valued using the LIFO method and included above amounted to $29.5 million and $22.3 million, respectively. For the year ended December 31, 1999, liquidations of LIFO layers resulted in a reduction of cost of sales of $21,000. There were no reductions in the LIFO layers for the years ended December 31, 2001 and 2000. (7) COST AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS Cost and estimated earnings on uncompleted contracts were as follows: DECEMBER 31, DECEMBER 31, 2001 2000 ------------ ------------ (IN THOUSANDS) Cost incurred on uncompleted contracts...................... $131,702 $67,477 Estimated earnings.. 51,343 34,475 -------- ------- 183,045 101,952 Less billings to date...................................... 169,925 91,301 -------- ------- $ 13,120 $10,651 ======== ======= Included in accompanying balance sheets under the following captions: Trade accounts receivable................................ $ 17,497 $10,651 Customer advances.. (4,377) -- -------- ------- $ 13,120 $10,651 ======== ======= 45 (8) PROPERTY, PLANT AND EQUIPMENT, NET The components of property, plant and equipment, were as follows: ESTIMATED USEFUL DECEMBER 31, DECEMBER 31, LIVES (YEARS) 2001 2000 ---------------- ------------ ------------ (IN THOUSANDS) Land and improvements....................... -- $ 1,977 $ 1,789 Buildings and improvements.................. 20 to 40 14,396 10,458 Machinery and equipment..................... 3 to 12 27,120 22,432 Office furniture and equipment............... 3 to 12 5,270 4,331 Less accumulated depreciation................ (17,760) (15,580) -------- -------- $ 31,003 $ 23,430 ======== ======== Depreciation expense was $4.1 million, $3.1 million and $3.7 million, respectively, for the years ended December 31, 2001, 2000 and 1999. The Company leases certain machinery and equipment to its customers, generally for periods of one month to one year. The cost of leased machinery and equipment was $5.3 million and $5.1 million, and the related accumulated depreciation was $3.5 million and $3.4 million, at December 31, 2001 and 2000, respectively. Lease and rental income of $1.2 million, $581,000 and $450,000 for the years ended December 31, 2001, 2000 and 1999, respectively, were included in revenues. (9) OTHER ASSETS, NET Other assets consisted of the following: DECEMBER 31, DECEMBER 31, 2001 2000 ------------ ------------ (IN THOUSANDS) Deferred financing costs.................................. $1,691 $ 433 Covenants not to compete.................................. -- 273 Prepaid pension asset..................................... -- 187 Other... 515 380 ------ ------ $2,206 $1,273 ====== ====== Deferred financing costs are amortized over the life of the related debt instruments (three and five years). Accumulated amortization was $1.2 million and $552,000 at December 31, 2001 and 2000, respectively. (10) ACCRUED EXPENSES AND OTHER Accrued expense and other consisted of the following: DECEMBER 31, DECEMBER 31, 2001 2000 ------------ ------------ (IN THOUSANDS) Accrued compensation and benefits.......................... $ 8,674 $ 7,683 Accrued insurance reserves................................ 1,731 1,012 Accrued warranty and product costs......................... 3,053 900 Accrued project costs..................................... 11,896 -- Taxes... 3,817 700 Other... 5,610 1,803 ------- ------- Totals.. $34,781 $12,098 ======= ======= 46 (11) SHORT-TERM DEBT In conjunction with the purchase of Porta-Test in January 2000, the Company issued a one-year promissory note for $1 million denominated in Canadian dollars, which accrued interest at 15% per annum. On January 24, 2001, the note was repaid along with accrued interest. During February 2000, the Company issued a one-year promissory note, face value of $338,000, with interest payable per

annum at 10%, in conjunction with the acquisition of MPE. In February 2001, the Company paid $206,000 as principal and interest. (12) LONG-TERM DEBT The consolidated borrowings of the Company are as follows: DECEMBER 31, DECEMBER 31, 2001 2000 ------------ ------------ (IN THOUSANDS) BANK DEBT Term loan with variable interest rate (4.25% at December 31, 2001) and quarterly payments of principal ($1,750) and interest, due March 16, 2006.............................. 44,750 -- Revolving credit bank loans with variable interest rate (8.58% at December 31, 2000) quarterly payment of interest, due November 30, 2001.......................... -- 14,959 Revolving credit bank loans with variable interest rate (4.52% at December 31, 2001) quarterly payment of interest, due March 15, 2004.............................. 12,768 -- Revolving credit bank loans (Export Sales Facility) with variable interest rate (4.75% at December 31, 2001) and monthly payment of interest, due July 23, 2004............ 1,050 -- ------- ------- Total.. 58,568 14,959 Less current installments............................. (7,000) -- ------- ------- Long-term debt.. $51,568 $14,959 ======= ======= The aggregate future maturities of long-term debt for the next five years ended December 31 summarize as follows: 2002--$7.0 million; 2003--$7.0 million; 2004--$20.8 million; 2005--$7.0 million; and 2006--$16.8 million. On March 16, 2001, the Company entered into a new credit facility that consisted of a $50.0 million term loan, a $35.0 million U.S. revolving facility, a $10.0 million Canadian revolving facility and a $5.0 million U.K. revolving facility. The term loan matures on March 15, 2006, and each of the revolving facilities matures on March 15, 2004. In October 2001, the Company amended this revolving credit agreement to reduce the borrowing capacity in the U.S. from $35.0 million to $30.0 million, and to increase its borrowing capacity in the U.K. from $5.0 million to $10.0 million. No other material modifications were made to the agreement. Amounts borrowed under the term loan bear interest at a rate of 4.25% per annum as of December 31, 2001. Amounts borrowed under the revolving portion of the facility bear interest as follows: - until April 1, 2002, at a rate equal to, at the Company's election, either (1) the London Interbank Offered Rate ("LIBOR") plus 2.25% or (2) a base rate plus 0.75%; and - on and after April 1, 2002, at a rate based upon the ratio of funded debt to EBITDA (as defined in the credit facility) and ranging from, at the Company's election, (1) a high of LIBOR plus 2.50% to a low of LIBOR plus 1.75% or, (2) a high of a base rate plus 1.0% to a low of a base rate plus 0.25%. 47 NATCO will pay commitment fees of 0.50% per year until April 1, 2002 and 0.30% to 0.50% per year following 2002, depending upon the ratio of funded debt to EBITDA, on and after April 1, 2002, in each case on the undrawn portion of the facility. The revolving credit facility is guaranteed by all the Company's domestic subsidiaries and is secured by a first priority lien on all inventory, accounts receivable and other material tangible and intangible assets. NATCO has also pledged 65% of the voting stock of its active foreign subsidiaries. Borrowings of $50.0 million under the term loan facility were used primarily for the acquisition of Axsia. The remaining borrowings, along with additional borrowings under the revolving credit facility, were used to repay $16.5 million outstanding under a predecessor revolving credit and term loan facility. As of December 31, 2001, the Company was in compliance with all restrictive debt covenants. NATCO had letters of credit outstanding under the revolving credit facilities totaling $19.0 million at December 31, 2001. These letters of credit constitute contract performance and warranty collateral and expire at various dates through October 2004. The Company maintains a working capital facility for export sales that provides for aggregate borrowings of $10.0 million, subject to borrowing base limitations, under which borrowings of $1.1 million were outstanding at December 31, 2001. Letters of credit outstanding under the export sales credit facility as of December 31, 2001 totaled $361,000. The export sales credit facility loans are secured by specific project inventory and receivables, are partially guaranteed by the EXIM Bank and mature in July 2004. The Company had unsecured letters of credit totaling $944,000 at December 31, 2001. On November 20, 1998, a revolving credit and term loan facility was put into place with a syndicate of major international banks. The credit facility provides for a $32.0 million revolving credit line ($22.0 million available in the U.S., $10.0 million available in Canada) to finance eligible accounts receivable and inventories, and a $32.5 million term loan. Indebtedness under the credit facility bears interest at a floating rate based, at the Company's option, upon (i) the Base Rate, or Canadian prime rate with respect to Base Rate Loans, plus the Margin Percentage or (ii) the London Interbank Offered Rate for one, two, three or six months, plus the Margin Percentage. The Margin Percentage for Base Rate and Canadian prime rate loans varies from 1.00% to 0.00% depending on the Company's debt to capitalization ratio; and the Margin Percentage for Eurodollar loans varies from 2.50% to 1.00% depending on the Company's debt to capitalization ratio. The term borrowings mature on November 30, 2003. During October 2000, the Company amended the revolving credit and term loan facility to extend the maturity date of the revolving credit facility to January 1, 2003. These agreements contain affirmative covenants including financial requirements related to minimum net worth, debt to

capitalization ratio, and fixed charge coverage ratio, as well as restrictions on NATCO making any distributions of any property or cash to the Company in excess of an agreed sum without prior lender approval, and requires commitment fees in accordance with standard banking practices. The loan was collateralized by substantially all the assets of the Company and its subsidiaries, as well as a guarantee by the Company. As of December 31, 2000, the Company was in compliance with all restrictive covenants. During the first quarter of 2000, NATCO retired all outstanding debt under the term loan facility utilizing the proceeds from the initial public offering of the Company's Class A common stock. In addition, the Company borrowed $3.0 million under the revolving credit facility to finance the acquisition of Porta-Test, which was repaid during February 2000. The Company borrowed $7.1 million under the revolving credit facility and $2.6 million under the facility for export sales during April 2000 to finance the purchase of ESI. In August 2000, the Company retired all outstanding borrowings under the export sales facility. Net borrowings under the revolving credit facility for the year ended December 31, 2000 were $11.6 million. Dividend Restrictions. With respect to its credit facilities, NATCO has agreed that it will not make any distributions of any property or cash to the Company or its stockholders' in excess of 50% of net income less excess cash flow beginning in 2001. No dividends were declared or paid during the years ended December 31, 2001, 2000 and 1999. 48 (13) INCOME TAXES Income tax expense (benefit) consisted of the following components: YEAR YEAR YEAR ENDED ENDED ENDED DECEMBER 31, DECEMBER 31, DECEMBER 31, 2001 2000 1999 ------------ ------------ ------------ (IN THOUSANDS) Current: Federal...................................... $ (240) $2,569 $ -- State.. 190 206 240 Foreign...................................... 4,678 959 201 ------ ------ ------ 4,628 3,734 441 ------ ------ ------ Deferred: Federal...................................... (524) 1,279 912 State.. (9) 167 104 Foreign...................................... (200) 165 91 ------ ------ ------ (733) 1,611 1,107 ------ ------ ------ $3,895 $5,345 $1,548 ====== ====== ====== Temporary differences related to the following items that give rise to deferred tax assets and liabilities were as follows: DECEMBER 31, DECEMBER 31, 2001 2000 ------------ ------------ (IN THOUSANDS) Deferred tax assets: Postretirement benefit liability.......................... $ 5,138 $5,324 Accrued liabilities....................................... 3,043 2,585 Net operating loss carry forward.......................... 1,851 559 Accounts receivable....................................... 298 254 Property, plant and equipment............................. 234 64 Foreign tax credit carry forward.......................... 699 -- R&D tax credit carry forward.............................. 65 -- ------- ------ Deferred tax assets.................................... 11,328 8,786 Valuation allowance....................................... 1,281 -- ------- ------ Net deferred tax assets................................ 10,047 8,786 ------- ------ Deferred tax liabilities: Inventory... 732 871 Property, plant and equipment............................. 1,244 692 Pension assets.. -- 69 ------- ------ Total deferred tax liabilities......................... 1,976 1,632 ------- ------ Net deferred tax assets................................ $ 8,071 $7,154 ======= ====== At December 31, 2001, the Company recorded a valuation allowance of $1.3 million related to certain deferred tax assets acquired with the purchase of Axsia in March 2001. No valuation allowance was recorded related to the Company's deferred tax assets during fiscal 2000 because it was the opinion of management that future operations will more likely than not generate sufficient taxable income to realize the deferred tax assets. At December 31, 2001, the Company had net operating loss carry-forwards for federal income tax purposes of $3.1 million that were available to offset future federal income tax through 2021. 49 Income tax expense differs from the amount computed by applying the U.S. federal income tax rate of 34% to income from continuing operations before income taxes as a result of the following: YEAR ENDED YEAR ENDED YEAR ENDED DECEMBER 31, DECEMBER 31, DECEMBER 31, 2001 2000 1999 ------------ ------------ ------------ (IN THOUSANDS) Income tax expense computed at statutory rate... $3,148 $4,422 $ 744 State income tax expense (benefit) net of federal income tax effect..................... 116 303 262 Foreign income tax expense (benefit) net of federal income tax effect..................... (635) 75 (204) Domestic losses for which no tax benefit is currently available........................... 134 -- -- Foreign losses for which no tax benefit is currently available........................... 81 137 91 Tax benefit of foreign losses not previously claimed...................................... -- -- (39) Permanent differences, primarily meals and entertainment and amortization................ 1,475 641 390 Deferred state rate adjustment.................. -- -- 235 Foreign tax credit refund claims................ (307) -- -- Research and development tax credit............. (100) (150) -- Other... (17) (83) 69 ------ ------ ------ $3,895 $5,345 $1,548 ====== ====== ====== A provision has not been made for U.S. income taxes that would be payable if undistributed earnings of foreign subsidiaries were distributed to the Company in the form of dividends, since it is management's intention to reinvest such earnings permanently in the related foreign operations. Federal income tax returns for fiscal years beginning with 1998 are open for review by the Internal Revenue Service. (14)

STOCKHOLDERS' EQUITY CEO Stock Options. In connection with the engagement of the Chief Executive Officer of the Company, the Company granted to him options to purchase National Tank Company common stock that were subsequently converted to options to purchase common stock of the Company. At December 31, 2001 and 2000, these options related to an aggregate of 346,113 shares and 264,363 shares, respectively, of the Company's common stock. Stock Appreciation Rights. During 1994, NATCO adopted the National Tank Company Stock Appreciation Rights Plan (the National Tank Plan). The National Tank Plan provided for grants to officers and key employees of NATCO of rights to the appreciation in value of a stated number of shares of NATCO common stock. Value was to be determined by a committee of the NATCO Board of Directors. The maximum number of rights issuable under the National Tank Plan was 500,000. Rights vested over a three-year period. Individual Stock Options. On July 1, 1997, the Board of Directors of the Company approved the exchange of rights outstanding under the National Tank Plan, discussed previously, for individual options to purchase common stock of the Company. Compensation expense was recognized to the extent that the projected fair market value of the stock on the exchange date exceeded the exercise price of the options. Furthermore, additional stock options were granted under this plan with an exercise price equal to the fair market value of the shares on the date of grant. Accordingly, no compensation expense was recorded for these additional grants. The individual stock options granted on July 1, 1997 vested ratably over a period of three or four years. The maximum term of these options was 10 years. At December 31, 2001 and 2000, an aggregate of 527,701 and 764,204 stock options, respectively, remained outstanding under this plan. 50 Stock Option Plans. In January 1998 and February 1998, the Company adopted the Directors Compensation Plan and the Employee Stock Incentive Plan. These plans authorize the issuance of options to purchase up to an aggregate of 760,000 shares of Company common stock. The options vest over periods of up to four years. The maximum term under these options is ten years. At December 31, 2001, 2000 and 1999, options relating to an aggregate of 743,920 shares, 743,953 shares and 455,085 shares, respectively, were outstanding under these plans. NATCO Group Inc. 2001 Stock Incentive Plan. In November 2000, the Board of Directors of the Company approved and authorized the issuance of up to 300,000 shares of the Company's common stock for the 2000 Employee Stock Option Plan. On May 24, 2001, the Company's stockholders approved the NATCO Group Inc. 2001 Stock Incentive Plan, which superceded and replaced the 2000 Plan in its entirety, and increased the number of shares as to which options or awards may be granted under the plan to a maximum of 1,000,000 shares. At December 31, 2001, options relating to an aggregate of 795,826 shares were outstanding under this plan. No options were outstanding under this plan as of December 31, 2000. The following table summarizes the transactions of the Company's stock option plans for the years ended December 31, 2001, 2000 and 1999: WEIGHTED STOCK OPTIONS AVERAGE SHARES EXERCISE PRICE ------------- -------------
Balance at December 31, 1998............................... 1,759,781 $ 3.48 Granted... 194,167 $ 9.25 Exercised.. (143,334) $ 1.51 Canceled.. (15,417) $ 7.58 --------- ------ Balance at December 31, 1999............................... 1,795,197 $ 4.35 Granted... 411,035 $ 9.14 Exercised.. (674,240) $ 2.09 Canceled... (23,835) $ 8.39 --------- ------ Balance at December 31, 2000............................... 1,508,157 $ 6.83 Granted... 815,693 $ 9.13 Exercised.. (236,503) $ 1.47 Canceled.. (19,900) $10.05 --------- ------ Balance at December 31, 2001............................... 2,067,447 $ 8.31 ========= Price $2.22 (weighted average remaining contractual life of 1.29 years).. 50,001 $ 2.22 Price range $5.03--$6.27 (weighted average remaining contractual life of 6.62 years).......................... 665,517 $ 5.57 Price range $7.74--$8.81 (weighted average remaining contractual life of 7.51 years).......................... 635,127 $ 8.72 Price range $10.00--$11.69 (weighted average remaining contractual life of 8.38 years).......................... 499,302 $10.09 Price $12.91 (weighted average remaining contractual life of 9.40 years)... 217,500 $12.91 WEIGHTED STOCK OPTIONS AVERAGE EXERCISABLE OPTIONS SHARES EXERCISE PRICE ------------------ ------------- ------------- December 31, 1999.. 1,382,858 $3.24 December 31, 2000.. 840,969 $4.95 December 31, 2001.. 851,872 $6.95 Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined by applying the Black-Scholes Single Option--Reduced Term valuation method. This valuation model requires management to make highly subjective assumptions about volatility of NATCO's common stock, the expected term of outstanding stock options, the Company's risk-free interest rate and 51 expected dividend payments during the contractual life of the options. Volatility of stock prices was evaluated based upon historical data from the

New York Stock Exchange from the date of the initial public offering, January 28, 2000, to February 1, 2002. Volatility was calculated at 52% as of December 31, 2001, but was stepped-down by 10% per year for the next four years to reflect expected stabilization. The following table summarizes other assumptions used to determine pro forma compensation expense under SFAS No. 123 as of December 31, 2001: DATE OF GRANT NUMBER OF OPTIONS EXPECTED OPTION LIFE RISK-FREE RATE ------------- ---------------- -------------------- -------------- Pre-IPO 715,535 7 to 7.5 years 5.97% - 6.40% Pre-IPO 360,469 5 years 5.29% - 6.31% Post-IPO 564,950 7 years 4.83% - 6.65% Post-IPO 426,493 3.5 years 3.06% - 6.60% Risk-free rates were determined based upon U.S. Treasury obligations as of the option date and outstanding for a similar term. The Company does not intend to pay dividends on its common stock during the term of the options outstanding as of December 31, 2001. For the year ended December 31, 1999, the Company accounted for its employee stock options under the minimum value method permitted by SFAS No. 123 under the assumptions of a risk free rate of 5.5% and an expected life of options of 10 years for options issued after March 31, 1998. For options issued prior to March 31, 1998, the risk free rate of return used was 7% and the expected life used was 7.5 years. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net earnings and earnings per share for the years ended December 31, 2001, 2000 and 1999 were as follows: YEAR ENDED YEAR ENDED YEAR ENDED DECEMBER 31, DECEMBER 31, DECEMBER 31, 2001 2000 1999 ------------ ------------ ------------ (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) Net earnings--as reported....................... $5,363 $7,671 $ 641 Net earnings--pro forma......................... $4,572 $7,106 $ 276 Earnings per share--as reported................ $ 0.34 $ 0.51 $0.06 Earnings per share--pro forma.................. $ 0.29 $ 0.47 $0.03 Because SFAS No. 123 requires pro forma amounts for options granted beginning in 1995, the pro forma expense will likely increase in future years as the new option grants become subject to the pricing model. Preferred Stock Purchase Rights In May 1998, the Board of Directors of the Company declared a dividend of one preferred share purchase right for each outstanding share of common stock and for each share of common stock thereafter issued prior to the time the rights become exercisable. When the rights become exercisable, each right will entitle the holder to purchase one one-hundredth of one share of Series A Junior Participating Preferred Stock at a price of $72.50 in cash. Until the rights become exercisable, they will be evidenced by the certificates or ownership of NATCO's common stock, and they will not be transferable apart from the common stock. The rights will become exercisable following the tenth day after a person or group announces acquisition of 15% or more of the Company's common stock or announces commencement of a tender offer, the consummation of which would result in ownership by the person or group of 15% or more of the Company's common stock. If a person or group were to acquire 15% or more of the Company's common stock, each right would become a right to buy that number of shares of common stock that would have a market value of two times the exercise price of the right. Rights beneficially owned by the acquiring person or group would, however, become void. At any time prior to the time the rights become exercisable, the board of directors may redeem the rights at a price of $0.01 per right. At any time after the acquisition by a person or group of 15% or more but less 52 than 50% of the common stock, the board may redeem all or part of the rights by issuing common stock in exchange for them at the rate of one share of common stock for each two shares of common stock for which each right is then exercisable. The rights will expire on May 15, 2008 unless previously extended or redeemed. (15) CHANGE IN ACCOUNTING PRINCIPLE Effective January 1, 2000, NATCO recorded the cumulative effect of a change in accounting principle related to gains and losses on postretirement benefit obligation. Prior to December 31, 2000, gains and losses that resulted from experience or assumption changes were recorded as a charge to current income in the period of the change. Under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," NATCO revised its method of accounting for these gains and losses to amortize the net gain or loss that exceeds 10% of the Company's adjusted postretirement benefit obligation over the remaining life expectancy of the plan participants. The newly adopted accounting principle is preferable in the circumstances because the deferral of unrealized gains and losses is more common in practice and results in less volatility in net periodic postretirement benefit cost. A gain of $10,000, net of tax, was recorded in the consolidated statement of income as of December 31, 2000, as a result of this change in accounting principle. The pro forma impact on earnings of this change for the year ended December 31, 1999 was a reduction of $598,000. See Note 16, Pension and Other Postretirement Benefits. (16) PENSION AND OTHER POSTRETIREMENT BENEFITS The Company has adopted SFAS No. 132, which revised disclosures about pension and other postretirement benefit plans. Disclosures regarding pension benefits represent the plan for certain union employees of a foreign subsidiary. Disclosures regarding postretirement benefits represent health care and life insurance benefits for employees who

were retired when the Company was acquired from C-E. In December 1999, the Company entered into an agreement with Tyler and Capricorn Investors L.P., through which the Company assumed responsibility for the retired employee health and life insurance obligations of Tyler. The liability accrued with respect to these obligations, as determined by an independent actuarial firm, was $1.1 million. In consideration of this agreement, Tyler paid the Company $475,000 in cash and assigned a portion of the federal income tax refund due to Tyler in the amount of approximately $600,000. Tyler remitted $600,000 in January 2000 as settlement of this arrangement. In December 2000, NATCO changed the method used to record gains and losses on its postretirement benefit obligation, which resulted in a gain of $10,000, net of tax, for the year ended December 31, 2000, and an unrecognized loss of $1.5 million. See Note 15, Change in Accounting Principle. On May 1, 2001, the Company amended a postretirement benefit plan that provided medical and dental coverage to retirees of a predecessor company. Under the amended plan, retirees bear additional costs of coverage. Significant plan changes include higher deductibles, prescription coverage under a drug card program and the elimination of dental benefits. As of July 1, 2001, the Company obtained a third-party valuation of its liability under this plan arrangement, as amended. Based upon this valuation, the effect of this amendment was a $6.4 million reduction in the Company's postretirement benefit liability. As of December 31, 2001, a cumulative unrecognized loss of $3.6 million existed related to this postretirement benefit plan. In accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the benefit associated with the plan amendment will be amortized to income as a prior service cost adjustment over the remaining life expectancy of the plan participants. Additionally, the cumulative unrecognized loss will be amortized to expense over the remaining life expectancy of the plan participants. In November 2001, the Company agreed to maintain benefits at pre-amendment levels for a specified class of retirees in exchange for expense reimbursement from the former sponsor of the postretirement benefit plan. The agreement requires reimbursement of $79,000 per year for each of the four succeeding years. Pursuant to this arrangement, the Company received $79,000 as reimbursement of postretirement benefit expenses for 2001, and recorded a receivable for the present value of the future benefits of $291,000. 53 In August 2001, the participants of the Canadian pension plan voted to terminate contributions to the plan and receive actuarially determined cash distributions. As of December 31, 2001, the Company had not formally announced the termination of the pension plan, and continued to fund the plan based upon plan provisions. The following table sets forth the plan's benefit obligation, fair value of plan assets, and funded status at December 31, 2001 and 2000. PENSION BENEFITS POSTRETIREMENT BENEFITS -------------------------- -------------------------- DECEMBER 31, DECEMBER 31, DECEMBER 31, DECEMBER 31, 2001 2000 2001 2000 ------------ ------------ ------------ ------------ (IN THOUSANDS) CHANGE IN BENEFIT OBLIGATION Benefit obligation at beginning of the period.............................. $610 $604 $ 16,064 $ 15,853 Cumulative effect of change in accounting principle................ -- -- -- (17) Service cost.......................... 35 42 -- -- Interest cost......................... 41 47 1,006 1,287 Participant and prior sponsor contributions....................... -- -- 533 127 Actuarial (gain) loss................. 49 (33) 2,338 1,475 Foreign currency exchange rate differences......................... (38) (23) -- -- Contribution from former plan holder... -- -- -- ---- Plan amendment........................ -- -- (6,422) -- Benefit payments...................... (18) (27) (1,933) (2,661) ---- ---- -------- -------- Benefit obligation at end of period.... $679 $610 $ 11,586 $ 16,064 ==== ==== ======== ======== CHANGE IN FAIR VALUE OF PLAN ASSETS Fair value of plan assets at beginning of period........................... $732 $674 $ -- $ -- Actual return on plan assets........... 50 48 -- -- Foreign currency exchange rate differences......................... (40) (26) -- -- Employer contributions................ 25 48 1,400 2,534 Participant and prior sponsor contributions...................... -- -- 533 127 Experience gain/(loss)................ (125) 15 -- ---- Benefit payments...................... (18) (27) (1,933) (2,661) ---- ---- -------- -------- Fair value of plan assets at end of period.............................. 624 732 -- -- ---- ---- -------- -------- Funded status......................... (55) 122 (11,586) (16,064) Unrecognized loss..................... -- -- 3,639 1,475 Unrecognized prior service cost........ -- -- (6,130) -- Unrecognized experience loss........... 250 89 -- -- ---- ---- -------- -------- Prepaid (accrued) benefit cost......... $195 $211 $(14,077) $(14,589) ==== ==== ======== ======== WEIGHTED AVERAGE ASSUMPTIONS Discount rate......................... 6.25% 7.0% 7.5% 7.5% Expected return on plan assets......... 7.0% 7.0% N/A N/A Rate of compensation increase.......... N/A N/A N/A N/A Health care trend rates............... -- -- 4.5%-8.5% 4.5%- 6.75% COMPONENTS OF NET PERIODIC BENEFIT COST: Service cost.......................... $ 35 $ 42 $ -- $ -- Unrecognized prior service cost........ -- -- (292) -- 54 PENSION BENEFITS POSTRETIREMENT BENEFITS -------------------------- -------------------------- DECEMBER 31, DECEMBER 31, DECEMBER 31, DECEMBER 31, 2001 2000 2001 2000 ------------ ------------ ------------ ------------ (IN THOUSANDS) Interest cost......................... 41

47 1,006 1,287 Unrecognized loss..................... -- -- 174 -- Recognized gains...................... (49) (38) -- -- ---- ---- -------- -------- Net periodic benefit cost............. $ 27 $ 51 $ 888 $ 1,287 ==== ==== ======== ======== 1% Increase 1% Increase Effect on interest cost component...... $ 82 $ 89 Effect on the health care component of the accumulated postretirement benefit obligation.................. $ 975 $ 1,261 Defined Contribution Plans. The Company and its subsidiaries each have defined contribution pension plans covering substantially all nonunion hourly and salaried employees who have completed three months of service. Employee contributions of up to 3% of each covered employee's compensation are matched 100% by the Company, with an additional 2% of covered employee's compensation matched at 50%. In addition, the Company may make discretionary contributions as profit sharing contributions. Company contributions to the plan totaled $1.8 million, $1.4 million and $1.6 million for the years ended December 31, 2001, 2000 and 1999, respectively. (17) OPERATING LEASES The Company and its subsidiaries lease various facilities and equipment under non-cancelable operating lease agreements. These leases expire on various dates through September 2006, excluding a lease arrangement for a facility at Axsia that requires lease commitments until the facility is sublet to another party. Future minimum lease payments required under operating leases that have remaining non-cancelable lease terms in excess of one year at December 31, 2001, were as follows: 2002--$3.9 million, 2003--$3.3 million, 2004--$2.7 million, 2005--$811,000, and 2006--$674,000. Total expense for operating leases for the years ended December 31, 2001, 2000 and 1999 was $5.3 million, $4.4 million and $3.5 million, respectively. For a discussion of lease and rental income, see Note 7, Property, Plant and Equipment, net. (18) RELATED PARTIES The Company paid Capricorn Management, G.P., an affiliate company of Capricorn Holdings, Inc., for administrative services, which included office space and parking in Connecticut for the Company's Chief Executive Officer, reception, telephone, computer services and other normal office support relating to that space. Mr. Herbert S. Winokur, Jr., one of the Company's directors, is the Chairman and Chief Executive Officer of Capricorn Holdings, Inc., and directly or indirectly controls approximately 31% of the Company's common stock. In addition, the Company's Chief Executive Officer, Mr. Gregory, is a non-salaried member in Capricorn Holdings LLC, the general partner of Capricorn Investors II, L.P., a private investment partnership. Capricorn Investors II, L.P. controls approximately 20% of the Company's common stock. Fees paid to Capricorn Management totaled $85,000, $75,000 and $75,000 for the years ended December 31, 2001, 2000 and 1999, respectively. Commencing October 1, 2001, the fee increased to $28,750 per quarter due primarily to upward adjustments in Capricorn Management's underlying lease for office space; this increase was reviewed and approved by the Audit Committee of the Company's Board of Directors. As of December 31, 1999, the Company recorded a receivable from Capricorn Management for $5,000 related to expenses paid on its behalf. No receivable existed at December 31, 2001 or 2000. For the year ended December 31, 1999, PTH paid $84,000 to the Company for tax consulting and analysis services. No receivable from PTH existed at December 31, 2001 or 2000, as the tax consulting arrangement terminated during January 2000. 55 During 1997, the Company loaned $1.5 million (at a rate of 10% per annum) to a director of the Company who was also an affiliate of Capricorn Holdings Inc. In March 1998, the related promissory note was amended to change the interest rate to 11% per annum. The principal was due on the date on which Capricorn Investors L.P. distributed its holding of NATCO common stock to its partners. During 1998, NATCO acquired an option at a cost of $200,000 to purchase 173,050 shares of its common stock from the director at a price of $8.81 per share. At NATCO's option, the note could be repaid with shares of the Company's common stock. The cost to acquire the option was recorded as treasury stock in the accompanying consolidated balance sheet. A note arrangement with a director, recorded as a $1.9 million current asset at December 31, 1999, was partially settled during February 2000, when the Company exercised an option to purchase 173,050 shares of its common stock from this director at a cost of $1.5 million. The remaining balance of the note was repaid during June 2000. Under the terms of an employment agreement in effect prior to 1999, the Company loaned its Chief Executive Officer $1.2 million in July 1999 to purchase 136,832 shares of common stock. During February 2000, after the Company completed an initial public offering of its Class A common stock, NATCO paid this executive officer a bonus equal to the principal and interest accrued under this note arrangement and recorded compensation expense of $1.3 million. The officer used the proceeds of this settlement, net of tax, to repay the Company approximately $665,000. The remaining loan balance and accrued interest was $651,000 at December 31, 2001, and continues to accrue interest at 6% annually. In addition, on October 27, 2000, the Company's board of directors agreed to provide a full recourse loan to this executive officer to facilitate the exercise of certain outstanding stock options. This loan matures on July 31, 2003, and provides interest stated at the Company's then-current borrowing rate, and principal equal to the cost to exercise the options plus any personal tax burdens that result from

the exercise. As of December 31, 2001, the balance of the note (principal and accrued interest) due from this officer under these loan arrangements was $3.3 million. See Note 5, Unusual Charges. During December 1999, the Company assumed the postretirement pension liability of a former affiliate, Tyler. In February 2000, the Company received $600,000 from Tyler as settlement of an agreement entered into between Tyler, Capricorn Investors L.P. and the Company, whereby the Company assumed responsibility for the retired employee health and life insurance obligations of Tyler. See Note 16, Pension and Other Postretirement Benefits. (19) COMMITMENTS AND CONTINGENCIES The Porta-Test purchase agreement, executed in January 2000, contains a provision to calculate a payment to certain former stockholders of Porta-Test Systems, Inc. for a three-year period ended January 24, 2003, based upon sales of a limited number of specified products designed by or utilizing technology that existed at the time of the acquisition. Liability under this arrangement is contingent upon attaining certain performance criteria, including gross margins and sales volumes for the specified products. If applicable, payment is required annually. In April 2001, the Company paid $226,000 under this arrangement related to the year ended January 24, 2001. Any future liabilities incurred under this arrangement will result in an increase in goodwill. (20) CHANGE IN ACCOUNTING ESTIMATE During April 2000, the Company extended the service life of a carbon dioxide gas-processing plant based upon the extension of an agreement to operate the facility. The effect on net income and basic and diluted earnings per share before the cumulative effect of a change in accounting principle was an increase of $305,000 and $.02, respectively, for the year ended December 31, 2000. (21) LITIGATION The Company is a party to various routine legal proceedings. These primarily involve commercial claims, products liability claims and workers' compensation claims. We cannot predict the outcome of these lawsuits, legal proceedings and claims with certainty. Nevertheless, we believe that the outcome of all of these 56 proceedings, even if determined adversely, would not have a material adverse effect on our business or financial condition. (22) INDUSTRY SEGMENTS AND GEOGRAPHIC INFORMATION The Company has adopted the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The Company's business units have separate management teams and infrastructures that offer different products and services. The business units have been aggregated into three reportable segments (described below) since the long-term financial performance of these reportable segments is affected by similar economic conditions. In the first quarter of 2001, the Company changed the presentation of its reportable segments by combining the traditional production equipment and services business segment with the NATCO Canada business segment, to form the North American Operations business segment. This change has been retroactively reflected in all periods presented. North American Operations: This segment consists of the U.S. Sales & Service business unit and the Company's Canadian subsidiary. The U.S. Sales & Service business unit designs, engineers, manufactures, and provides start-up services for production equipment, which is generally less complex than those units provided by Engineered Systems, and provides replacement parts, field and shop servicing of equipment, and used equipment refurbishing. NATCO Canada provides design, engineering, manufacturing and start-up services for production equipment, as well as replacement parts, field and shop servicing of equipment and used equipment refurbishing. NATCO Canada also provides selective manufacturing services for the Engineered Systems segment. The principal market for the U.S. Sales & Service business unit is the U.S. onshore and offshore market and the international market. Customers include major multi-national, independent and national or state-owned companies. The principal markets for NATCO Canada are the oil and gas producing regions of Canada. Customers include major multi-national and independent companies. Engineered Systems: This segment consists of five business units; U.S. Engineered Systems, NTC Technical Services, NATCO Japan, NATCO Venezuela and Axsia, that provide design, engineering, manufacturing and start-up services for engineered process systems. The principal markets for this segment include all major oil and gas producing regions of the world including North America, South America, Europe, the Middle East, Africa and the Far East. Customers include major multi-national, independent and national or state-owned companies. Automation and Control Systems: TEST is the sole business unit reported in this segment. This unit designs, manufactures, installs and services instrumentation and electrical control systems. The principal markets for this segment include all major oil and gas producing regions of the world including North America, South America, Europe, Kazakhstan, Africa and the Far East. Customers include major multi-national, independent and national or state-owned companies. This segment was formerly named instrumentation and electrical systems. The accounting policies of the reportable segments are the same as those described in Note 2. The Company evaluates the performance of its operating segments based on income before net interest expense, income taxes, depreciation and amortization expense, accounting changes and nonrecurring items. Summarized financial information concerning the Company's reportable segments is shown in the

following table. In July 2000, the Company changed its presentation of certain assets that were acquired from Cynara in November 1998, and the related operating results, for segment reporting purposes. The majority of the assets were reclassified to the traditional production equipment and services business segment from the engineered systems business segment. This change has been retroactively reflected in all periods presented. 57 Summarized financial information concerning the Company's reportable segments is shown in the following table. NORTH AUTOMATION AMERICAN ENGINEERED & CONTROL CORPORATE & OPERATIONS SYSTEMS SYSTEMS ELIMINATIONS CONSOLIDATED ---------- ---------- ---------- ------------ ------------ (UNAUDITED, IN THOUSANDS) DECEMBER 31, 2001 Revenues from unaffiliated customers........ $144,366 $ 98,273 $43,943 -- $286,582 Inter-company revenues...................... $ 5,180 $ 748 $ 3,750 $(9,678) -- Segment profit (loss)....................... $ 12,589 $ 11,210 $ 4,718 $(5,947) $ 22,570 Total assets................................ $ 98,767 $104,541 $17,708 $11,735 $232,751 Capital expenditures........................ $ 5,906 $ 2,998 $ 465 $ 654 $ 10,023 Depreciation and amortization............... $ 3,590 $ 3,770 $ 501 $ 282 $ 8,143 DECEMBER 31, 2000 Revenues from unaffiliated customers........ $118,371 $ 67,535 $38,646 -- $224,552 Inter-company revenues...................... $ 5,374 $ 286 $ 4,115 $(9,775) -- Segment profit (loss)....................... $ 7,632 $ 13,978 $ 4,184 $(4,983) $ 20,811 Total assets................................ $ 88,621 $ 34,811 $20,512 $ 9,182 $153,126 Capital expenditures........................ $ 2,323 $ 5,316 $ 246 $ 252 $ 8,137 Depreciation and amortization............... $ 2,965 $ 1,460 $ 526 $ 160 $ 5,111 DECEMBER 31, 1999 Revenues from unaffiliated customers........ $ 79,659 $ 50,792 $39,497 -- $169,948 Inter-company revenues...................... $ 2,686 $ 1,726 $ 2,346 $(6,758) -- Segment profit (loss)....................... $ 3,460 $ 5,357 $ 4,577 $(3,492) $ 9,902 Total assets................................ $ 48,428 $ 26,128 $18,438 $13,836 $106,830 Capital expenditures........................ $ 3,168 $ 152 $ 295 $ (22) $ 3,593 Depreciation and amortization............... $ 2,914 $ 1,095 $ 545 $ 127 $ 4,681 The Company's geographic data for continuing operations for the years ended December 31, 2001, 2000 and 1999 were as follows: UNITED UNITED CORPORATE & STATES CANADA KINGDOM OTHER ELIMINATIONS CONSOLIDATED -------- ------- ------- ------- ------------ ------------ (UNAUDITED, IN THOUSANDS) DECEMBER 31, 2001 Revenues from unaffiliated customers..... $190,034 $28,746 $50,854 $16,948 $ -- $286,582 Inter-company revenues.................. 5,263 3,765 650 -- (9,678) -- -------- ------- ------- ------- ------- -------- Revenues................................ $195,297 $32,511 $51,504 $16,948 $(9,678) $286,582 -------- ------- ------- ------- ------- -------- Operating income (loss).................. $ 13,634 $ 589 $12,769 $ 1,525 $(5,947) $ 22,570 Total assets............................ $131,007 $21,071 $71,407 $ 9,266 $ -- $232,751 DECEMBER 31, 2000 Revenues from unaffiliated customers..... $177,878 $36,266 $1,631 $ 8,777 $ -- $224,552 Inter-company revenues.................. 5,724 4,051 -- -- (9,775) -- -------- ------- ------- ------- ------- -------- Revenues................................ $183,602 $40,317 $1,631 $ 8,777 $(9,775) $224,552 -------- ------- ------- ------- ------- -------- Operating income (loss).................. $ 22,167 $ 2,716 $ (166) $ 1,077 $(4,983) $ 20,811 Total assets............................ $129,525 $20,792 $ 295 $ 2,514 $ -- $153,126 DECEMBER 31, 1999 Revenues from unaffiliated customers..... $138,203 $18,240 $3,416 $10,089 $ -- $169,948 Inter-company revenues.................. 4,697 1,517 53 491 (6,758) -- -------- ------ ------- ------ ------- -------- Revenues................................ $142,900 $19,757 $3,469 $10,580 $(6,758) $169,948 -------- ------- ------- ------- ------- -------- Operating income (loss).................. $ 12,408 $ 59 $ 228 $ 1,255 $(4,048) $ 9,902 Total assets............................ $ 86,173 $15,306 $1,520 $ 3,831 $ -- $106,830 Equipment for large international projects is generally manufactured in the U.S. Therefore, revenues and results of operations related to these projects were presented as derived from the United States for purposes of this geographic presentation. Corporate expenses consist of corporate overhead and research and development expenses. 58 (23) QUARTERLY DATA The following tables summarize unaudited quarterly information for the years ended December 31, 2001, 2000 and 1999: 2001 --- FOR THE QUARTER ENDED MARCH 31, JUNE 30, SEPTEMBER 30, DECEMBER 31, --------- -------- ------------ ------------ (IN THOUSANDS, EXCEPT PER SHARE DATA) Revenues, net.............................. $62,910 $82,559 $74,522 $66,591 Gross profit............................... 15,993 20,305 20,617 19,155 Net income................................. $ 1,376 $ 520 $ 1,767 $ 1,700 ------- ------- ------- ------- Basic earnings per share.................... $ 0.09 $ 0.03 $ 0.11 $ 0.11 ------- ------- ------- ------- Fully diluted earnings per share............ $ 0.09 $ 0.03 $ 0.11 $ 0.11 ------- ------- ------- ------- 2000 --- Revenues, net.............................. $51,855 $55,935 $60,244 $56,518 Gross profit............................... 13,118 16,178 16,265 16,234 Income before cumulative effect............ $ 194 $ 2,471 $ 2,637 $ 2,359 ------- ------- ------- ------- Basic earnings per share.................... $ 0.01 $ 0.17 $ 0.18 $ 0.16 ------- ------- ------- ------- Fully diluted earnings per share............ $ 0.01 $ 0.16 $ 0.18 $ 0.16 ------- ------- ------- ------- 1999 ---

Revenues, net.............................. $42,142 $44,019 $39,733 $44,054 Gross profit............................... 9,119 11,203 10,670 11,347 Net income (loss)........................... $ (214) $ 504 $ 112 $ 239 ------- ------- ------- ------- Basic earnings (loss) per share............. $ (0.02) $ 0.06 $ 0.01 $ 0.02 ------- ------- ------- ------- Fully diluted earnings (loss) per share..... $ (0.02) $ 0.05 $ 0.01 $ 0.02 ------- ------- ------- ------- (24) OFFICE CLOSURE Prior to 1997, the Company began winding down the operations of NATCO U.K. Ltd. These activities include transferring the net assets and employees at the Company's parts and service business to a new U.S. subsidiary, NATCO London, Inc., and resolving pending severance, office closure and leasehold issues. During 1999, the Company reached favorable settlements related to various amounts owed to and by customers and vendors related to a number of contracts entered into between 1993 and 1995. An accrual for the costs associated with these various claims had been made during fiscal years 1995 through 1998 based on the best available information at that time. As a result of favorable settlements, the Company revised its previous estimates and reversed $314,000 of these accruals during the year ended December 31, 1999. (25) NEW ACCOUNTING PRONOUNCEMENTS In June 2001, the Financial Accounting Standards Board ("FASB") approved SFAS No. 141, "Business Combinations." This standard requires that any business combination initiated after June 30, 2001 be accounted for using the purchase method of accounting. This standard became effective on July 1, 2001. The Company does not expect this pronouncement to have a material effect on its financial condition or results of operations. The FASB approved SFAS No. 142, "Goodwill and Other Intangible Assets" in June 2001. This pronouncement requires that intangible assets with indefinite lives, including goodwill, cease being amortized and be evaluated on an impairment basis. Intangible assets with a defined term, such as patents, would continue to be amortized over the useful life of the asset. This pronouncement becomes effective on January 1, 59 2002, for companies with a calendar year end. The Company had net goodwill of $80.9 million as of September 30, 2001. Goodwill amortization totaled $2.6 million for the nine months ended September 30, 2001. The Company has not yet determined the impact that this pronouncement will have on its financial condition or results of operations. As permitted by the standard, the Company will determine and quantify its exposure under this pronouncement during fiscal 2002, after completing the required impairment testing. In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard provides guidance on reporting and accounting for obligations associated with the retirement of long-lived tangible assets and the associated retirement costs. This standard is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company has not yet determined the impact that this pronouncement will have on its financial condition or results of operations. In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and standardizes the accounting model to be used for asset dispositions and related implementation issues. This pronouncement becomes effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has not yet determined the impact that this pronouncement will have on its financial condition or results of operations. (26) SUBSEQUENT EVENTS On January 1, 2002, all outstanding shares of the Company's Class B common stock, 334,719 shares, were converted to Class A common stock, on a share for share basis, in accordance with the terms under which the Class B shares were issued. In February 2002, the Company borrowed $1.5 million from Wells Fargo Bank N.A. under a promissory note arrangement that requires quarterly principal and interest payments over a five-year term beginning May 2002, with interest accruing at a variable rate of LIBOR + 3.25%. This obligation was collateralized by the Magnolia manufacturing facility that was purchased in 2001. ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE There are no changes or disagreements with accountants on accounting and financial disclosure matters during the periods for which consolidated financial statements have been presented within this document. PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT The information on our directors is set forth in the section entitled "Election of Directors" in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2002, which section is incorporated herein by reference. ITEM 11. EXECUTIVE COMPENSATION The information for this item is set forth in the section entitled "Director and Executive Management Compensation" in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2002, which section is incorporated herein by reference. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The information concerning security ownership of certain beneficial owners and management is set forth in the sections entitled "Voting Securities and Principal Holders Thereof" and "Security Ownership of Management" in the Proxy Statement

for the Annual Meeting of Stockholders to be held on May 23, 2002, which sections are incorporated by reference. 60 ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS The information concerning certain relationships and related transactions is included under the caption "Certain Relationships and Transactions" in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2002, which sections are incorporated by reference. PART IV ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (a) Index to Financial Statements, Financial Statement Schedules and Exhibits PAGE ---- (1) Financial Statements Independent Auditors' Report...................... 34 Consolidated Balance Sheets....................... 35 Consolidated Statements of Operations............. 36 Consolidated Statements of Stockholders' Equity and Comprehensive Income................. 37 Consolidated Statements of Cash Flows............. 38 Notes to Consolidated Financial Statements........ 39 (2) Financial Statement Schedules No schedules have been included herein because the information required to be submitted has been included in the Company's Consolidated Financial Statements or the notes thereto, or the required information is inapplicable. (3) Index of Exhibits (a) See index of Exhibits for a list of those exhibits filed herewith, which index also includes and identifies management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601 (10) (iii) of Regulation S-K. (b) Reports on Form 8-K. We filed no reports on Form 8-K during the fourth quarter of 2001. (c) Index of Exhibits EXHIBIT NUMBER DESCRIPTION -------------- ----------- 2.1 -- Amended and Restated Agreement and Plan of Merger dated November 17, 1998 but effective March 26, 1998 among the Company, NATCO Acquisition Company, National Tank Company and The Cynara Company (incorporated by reference to Exhibit 2.1 of the Company's Registration Statement No. 333-48851 on Form S-1). 2.2 -- Stock Purchase Agreement dated as of May 7, 1997 among Enterra Petroleum Equipment Group, Inc., National Tank Company and Weatherford Enterra, Inc. (incorporated by Reference to Exhibit 2.2 of the Company's Registration Statement No. 333-48851 on Form S-1). 61 EXHIBIT NUMBER DESCRIPTION -------------- ----------- 3.1 -- Restated Certificate of Incorporation of the Company, as amended by Certificate of Amendment dated November 18, 1998 and Certificate of Amendment dated November 29, 1999 (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement No. 333-48851 on Form S-1). 3.2 -- Certificate of Designations of Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement No. 333-48851 on Form S-1). 3.3 -- Amended and Restated Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.3 of the Company's Quarterly Report on Form 10Q for the period ended March 31, 2000). 4.1 -- Specimen Common Stock certificate (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement No. 333-48851 on Form S-1). 4.2 -- Rights Agreement dated as of May 15, 1998 by and among the Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (incorporated by reference to Exhibit 4.2 of the Company's Registration Statement No. 333-48851 on Form S-1). 4.3 -- Registration Rights Agreement dated as of November 18, 1998 among the Company and Capricorn Investors, L.P. and Capricorn Investors II, L.P. (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement No. 333-48851 on Form S-1). 4.4 -- Registration Rights Agreement dated as of November 18, 1998 among the Company and the former stockholders of The Cynara Company (incorporated by reference to Exhibit 4.4 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.1** -- Directors Compensation Plan (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.2** -- Form on Nonemployee Director's Option Agreement (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.3** -- Employee Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.4** -- Form of Nonstatutory Stock Option Agreement (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement No. 333-48851 on Form S-1). 10.6 -- Service and Reimbursement Agreement dated as of July 1, 1997 between the Company and Capricorn Management, G.P. (incorporated by reference to Exhibit 10.6 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.7** -- Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.9 of the Company's Registration Statement No. 333-48851 on Form S-1). 62 EXHIBIT NUMBER DESCRIPTION -------------- ----------- 10.8 -- Securities Exchange Agreement dated as of March 5, 1998 by and among the Company, Capricorn Investors, L.P. and Capricorn Investors II, L.P. (incorporated by reference to Exhibit 10.10 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.10** -- Employment Agreement dated as of July 31, 1997 between the Company and Nathaniel A. Gregory, as amended as of July 12, 1999 (incorporated by reference to Exhibit 10.12 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.11 -- Stockholder's

Agreement dated as of November 18, 1998 among the Company, Capricorn Investors, L.P., Capricorn Investors II, L.P. and the former stockholders of The Cynara Company (incorporated by reference to Exhibit 10.19 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.12** -- Change of Control Policy dated as of September 28, 1999 (incorporated by reference to Exhibit 10.20 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.13** -- Severance Pay Summary Plan Description (incorporated by reference to Exhibit 10.21 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.14 -- Loan Agreement ($22,000,000 U.S. Revolving Loan Facility, $10,000,000 Canadian Revolving Loan Facility and $32,500,000 Term Loan Facility) dated as of November 20, 1998 among National Tank Company, NATCO Canada, Ltd., Chase Bank of Texas, National Association, The Bank of Nova Scotia and the other lenders parties thereto and joined in by NATCO Group, Inc., as amended (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement No. 333-48851 on Form S-1). 10.15 -- International Revolving Loan Agreement dated as of June 30, 1997 between National Tank Company and Texas Commerce Bank, National Association, as amended (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement No. 333-48851 on Form S-1). 18.1 -- Letter Regarding Change in Accounting Principle 21.1* -- List of Subsidiaries -------------- * Included herewith ** Management contracts or compensatory plans or arrangements. 63 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on the 28th day of March 2002. NATCO GROUP INC. (Registrant) /s/ NATHANIEL A. GREGORY By: ------------------------------------ Nathaniel A. Gregory Chief Executive Officer and Chairman of the Board of Directors Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons in the capacities indicated, on March 28th, 2002. SIGNATURE TITLE --------- ----- /s/ NATHANIEL A. GREGORY Chairman of the Board and Chief Executive --- Officer (Principal Executive Officer) Nathaniel A. Gregory /s/ PATRICK M. MCCARTHY Director and President --- Patrick M. McCarthy /s/ J. MICHAEL MAYER Senior Vice President and Chief Financial --- Officer (Principal Financial Officer) J. Michael Mayer /s/ RYAN S. LILES Vice President and Controller (Principal --- Accounting Officer) Ryan S. Liles /s/ KEITH K. ALLAN Director --- Keith K. Allan /s/ HOWARD I. BULL Director --- Howard I. Bull /s/ JOHN U. CLARKE Director --- John U. Clarke /s/ GEORGE K. HICKOX, JR. Director --- George K. Hickox, Jr. /s/ HERBERT S. WINOKUR, JR. Director --- Herbert S. Winokur, Jr. 64 EXHIBIT INDEX EXHIBIT NUMBER DESCRIPTION ------------- ----------- 2.1 -- Amended and Restated Agreement and Plan of Merger dated November 17, 1998 but effective March 26, 1998 among the Company, NATCO Acquisition Company, National Tank Company and The Cynara Company (incorporated by reference to Exhibit 2.1 of the Company's Registration Statement No. 333-48851 on Form S-1). 2.2 -- Stock Purchase Agreement dated as of May 7, 1997 among Enterra Petroleum Equipment Group, Inc., National Tank Company and Weatherford Enterra, Inc. (incorporated by Reference to Exhibit 2.2 of the Company's Registration Statement No. 333-48851 on Form S-1). 3.1 -- Restated Certificate of Incorporation of the Company, as amended by Certificate of Amendment dated November 18, 1998 and Certificate of Amendment dated November 29, 1999 (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement No. 333-48851 on Form S-1). 3.2 -- Certificate of Designations of Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement No. 333-48851 on Form S-1). 3.3 -- Amended and Restated Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.3 of the Company's Quarterly Report on Form 10Q for the period ended March 31, 2000). 4.1 -- Specimen Common Stock certificate (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement No. 333-48851 on Form S-1). 4.2 -- Rights Agreement dated as of May 15, 1998 by and among the Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (incorporated by reference to Exhibit 4.2 of the Company's Registration Statement No. 333-48851 on Form S-1). 4.3 -- Registration Rights Agreement dated as of November 18, 1998 among the Company and Capricorn Investors, L.P. and Capricorn Investors II, L.P. (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement No. 333-48851 on Form S-1). 4.4 -- Registration Rights Agreement dated as of November 18, 1998 among the Company and the former stockholders of The Cynara Company (incorporated by reference to Exhibit 4.4 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.1** -- Directors

Compensation Plan (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.2** -- Form on Nonemployee Director's Option Agreement (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.3** -- Employee Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.4** -- Form of Nonstatutory Stock Option Agreement (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement No. 333-48851 on Form S-1). 10.6 -- Service and Reimbursement Agreement dated as of July 1, 1997 between the Company and Capricorn Management, G.P. (incorporated by reference to Exhibit 10.6 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.7** -- Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.9 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.8 -- Securities Exchange Agreement dated as of March 5, 1998 by and among the Company, Capricorn Investors, L.P. and Capricorn Investors II, L.P. (incorporated by reference to Exhibit 10.10 of the Company's Registration Statement No. 333-48851 on Form S-1). EXHIBIT NUMBER DESCRIPTION ------------- ----------- 10.10** -- Employment Agreement dated as of July 31, 1997 between the Company and Nathaniel A. Gregory, as amended as of July 12, 1999 (incorporated by reference to Exhibit 10.12 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.11 -- Stockholder's Agreement dated as of November 18, 1998 among the Company, Capricorn Investors, L.P., Capricorn Investors II, L.P. and the former stockholders of The Cynara Company (incorporated by reference to Exhibit 10.19 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.12** -- Change of Control Policy dated as of September 28, 1999 (incorporated by reference to Exhibit 10.20 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.13** -- Severance Pay Summary Plan Description (incorporated by reference to Exhibit 10.21 of the Company's Registration Statement No. 333-48851 on Form S-1). 10.14 -- Loan Agreement ($22,000,000 U.S. Revolving Loan Facility, $10,000,000 Canadian Revolving Loan Facility and $32,500,000 Term Loan Facility) dated as of November 20, 1998 among National Tank Company, NATCO Canada, Ltd., Chase Bank of Texas, National Association, The Bank of Nova Scotia and the other lenders parties thereto and joined in by NATCO Group, Inc., as amended (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement No. 333-48851 on Form S-1). 10.15 -- International Revolving Loan Agreement dated as of June 30, 1997 between National Tank Company and Texas Commerce Bank, National Association, as amended (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement No. 333-48851 on Form S-1). .1 18 -- Letter Regarding Change in Accounting Principle 21.1* -- List of Subsidiaries -------------- * Included herewith ** Management contracts or compensatory plans or arrangements.