



FORM 10-K

NATCO GROUP INC – NTG

Filed: March 29, 2001 (period: December 31, 2000)

Annual report which provides a comprehensive overview of the company for the past year

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000 COMMISSION FILE NUMBER: 1-15603

NATCO GROUP INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 22-2906892
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER IDENTIFICATION NO.)
INCORPORATION OR ORGANIZATION)

2950 N. LOOP WEST, 7TH FLOOR, HOUSTON, TEXAS 77092
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)
Registrant's telephone number, including area code: (713) 683-9292

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common stock A, \$0.01 par value per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant.

As of March 15, 2001 \$95,192,496

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of March 15, 2001	Common stock A, \$0.01 par value per share	15,027,625 shares
	Common stock B, \$0.01 par value per share	699,874 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the NATCO Group Inc. Notice of Annual Meeting of Stockholders and Proxy Statement relating to the 2001 Annual Meeting of Shareholders, which the Registrant intends to file within 120 days of December 31, 2000, are incorporated by reference in Part III of this form.

NATCO GROUP INC.
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2000

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PART I

ITEM 1. BUSINESS

We are a leading provider of equipment, systems and services used in the production of crude oil and natural gas, primarily at or near the wellhead, to separate oil and gas within a production stream and to remove contaminants. Our products and services are used in onshore and offshore fields in most major oil and gas producing regions in the world. Separation and decontamination of a production stream is needed at almost every producing well in order to meet the specifications of transporters and end users.

We design and manufacture a diverse line of production equipment including:

- heaters, which prevent solids from forming in gas streams and reduces the viscosity of oil;
- dehydration and desalting units, which remove water and salt from oil and gas;
- separators, which separate a wellhead production stream into oil, gas and water;
- gas conditioning units and membrane separation systems, which remove carbon dioxide, CO(2), and other contaminants from a gas stream;
- control systems, which monitor and control production equipment; and
- water processing systems, which include systems for water reinjection, oily water treatment and other treatment applications.

We offer our products and services as either integrated systems or individual components primarily through three business lines:

- traditional production equipment and services, which provides standardized components, replacement parts and used components and equipment servicing;
- engineered systems, which provides customized, large scale integrated oil and gas production systems; and
- automation and control systems, which provides and services control panels and systems that monitor and control the production of oil and gas.

We have designed, manufactured and marketed production equipment and systems for 75 years. We operate six manufacturing facilities located in the U.S. and Canada and 38 sales and service facilities, 37 of which are located in the U.S. and Canada, and one which is located outside of North America. We believe that, among our competitors, we have the largest installed base of production equipment in the industry. We have achieved our position in the industry by maintaining technological leadership, capitalizing on our strong brand name recognition and offering a broad range of products and services.

INDUSTRY

Demand for oil and gas production equipment and services is driven primarily by the following:

- levels of production of oil and gas in response to worldwide demand;
- the changing mix of oil, gas and water in the production stream and the level of contaminants;
- the discovery of new oil and gas fields; and
- the quality of new hydrocarbon production.

We believe that the oil and gas production equipment and services market continues to have significant growth potential due to the following:

- Increasing demand for oil and natural gas. According to the Department of Energy, oil and natural gas consumption is expected to increase 2.3% per year in the United States and 3.7% per year world-wide through 2010.
- Increasing drilling activity. According to Baker Hughes, the average United States and Canadian rig count for 2000 was 1,260 versus 854 for 1999. Also according to Baker Hughes, the average international rig count for 2000 was 652 versus 588 for 1999.
- Changing profile of existing production. The production profile of existing fields change over time, either naturally or due to implementation of enhanced recovery techniques. Consequently, the mix of oil, gas, water and contaminants changes, and the production stream requires additional processing equipment.
- Increasing focus on large-scale projects. Due to the increased demand for oil and gas, oil companies are pursuing larger and more complex development projects that often require specialized production equipment. These projects may be in remote locations, deepwater or harsh environments and may involve complex production profiles and operations.

COMPETITIVE STRENGTHS

We believe that the following are our key competitive strengths:

- Market leadership and industry reputation. We have designed, manufactured and marketed production equipment and systems for 75 years. We believe that, among our competitors, we have the largest installed base of production equipment in the industry. We will continue to enhance our products and services in order to meet the demands of our customers.
- Technological leadership. We believe that we have established a position of global technological leadership by pioneering the development of innovative separation technologies. We continue to be a technological leader in areas such as CO₂ separation using membrane technology and oil-water emulsion treatment using dual-polarity electrostatic technology. We hold approximately 175 active U.S. and foreign patents and continue to invest in research and development.
- Extensive line of products and services. We provide a broad range of high quality production equipment and services, ranging from standard processing and control equipment, to highly specialized engineered systems and fully integrated solutions to our customers around the world. By providing the broadest range of products and services in the industry, we offer our customers the time and cost savings resulting from the use of a single supplier for process engineering, design, manufacturing and installation of production and related control systems.
- Experienced and focused management team. Our management team has extensive experience in our industry with an average of over 20 years of experience. We believe that our management team has successfully demonstrated its ability to manage the growth of our business and the integration of acquisitions. Additionally, our management team has a substantial financial interest in our continued success through equity ownership or incentives.

BUSINESS STRATEGY

Our objective is to maximize earnings by maintaining and enhancing our position as a leading provider of equipment, systems and services used in the production of crude oil and natural gas which we intend to achieve by pursuing the following business strategies:

- Focusing on Customer Relationships. We believe that our customers increasingly prefer to work on a regular basis with a small number of leading suppliers. We believe our size, scope of products, technological expertise and service orientation provide us with a competitive advantage in establishing

preferred supplier relationships with customers. We intend to generate growth in revenue and market share by establishing new and further developing existing customer relationships.

- Providing Integrated Systems and Solutions. We believe our integrated design and manufacturing capabilities enable us to reduce our customers' production equipment and systems costs and shorten delivery times. Our strategy is to be involved in projects early, to provide the broadest and most complete scope of equipment and services in our industry and to focus on larger integrated systems.
- Introducing New Technologies and Products. Since our inception, we have developed and acquired leading technologies that enable us to address the global market demand for increasingly sophisticated production equipment and systems. We will continue to pursue new technologies through internal development, acquisitions and licenses.
- Pursuing Complementary Acquisitions. Our industry is highly fragmented and contains many smaller competitors with narrow product lines and geographic scope. We intend to continue to acquire companies that provide complementary technologies, enhance our ability to offer integrated systems or expand our geographic reach.
- Expanding International Presence. We have operated in various international markets for more than 50 years. We intend to continue to expand internationally in targeted geographic regions, such as Southeast Asia, South America and West Africa.

You should carefully consider the risks described below as well as other information and data included or incorporated by reference in this Form 10-K filing before making an investment decision.

RISKS RELATING TO OUR BUSINESS

A SUBSTANTIAL OR EXTENDED DECLINE IN OIL OR GAS PRICES COULD RESULT IN LOWER EXPENDITURES BY THE OIL AND GAS INDUSTRY, THEREBY NEGATIVELY AFFECTING OUR REVENUE.

Our business is substantially dependent on the condition of the oil and gas industry and its willingness to spend capital on the exploration for and development of oil and gas reserves. A substantial or extended decline in these expenditures may result in the discovery of fewer new reserves of oil and gas, adversely affecting the market for our production equipment and services. The level of these capital expenditures is generally dependent on the industry's view of oil and gas prices, which have been characterized by significant volatility in recent years. Oil and gas prices are affected by numerous factors, including:

- the level of exploration activity;
- worldwide economic activity;
- interest rates and the cost of capital;
- environmental regulation;
- tax policies;
- political requirements of national governments;
- coordination by OPEC;
- the cost of producing oil and gas; and
- technological advances.

WE MAY LOSE MONEY ON FIXED PRICE CONTRACTS.

Many of our projects, including larger engineered systems projects, are performed on a fixed-price basis. We are responsible for all cost overruns, other than any resulting from change orders. Our costs and any gross

profit realized on our fixed-price contracts will often vary from the estimated amounts on which these contracts were originally based. This may occur for various reasons, including:

- errors in estimates or bidding;
- changes in availability and cost of labor and material; and
- variations in productivity from our original estimates.

These variations and the risks inherent in engineered systems projects may result in reduced profitability or losses on our projects. Depending on the size of a project, variations from estimated contract performance can have a significant negative impact on our operating results or our financial condition.

WE HAVE RELIED AND WE EXPECT TO CONTINUE TO RELY ON A LIMITED NUMBER OF CUSTOMERS FOR A SIGNIFICANT PORTION OF OUR REVENUES.

There have been and are expected to be periods where a substantial portion of our revenues is derived from a single customer or a small group of customers. On July 1, 1999, we were awarded a \$73.0 million contract to supply gas treating and conditioning equipment for a project in Southeast Asia. The project is a joint venture under the control of the Carigali-Triton Operating Company SDN BHD, or CTOC, which is principally owned by Petronas, the Malaysian national oil company, and by BP. The project is located in the Gulf of Thailand. This project produced approximately 20% of our revenues in 2000 and is approximately 85% complete.

THE LOSS OF ONE OR MORE OF OUR CUSTOMER RELATIONSHIPS COULD MATERIALLY HARM OUR BUSINESS AND EARNINGS.

We expect to continue our practice of entering into relationships with major oil companies and large independent producers. In these relationships, we are typically designated as the preferred supplier of equipment or services or both. Many of these relationships are nonbinding arrangements in which both parties undertake to satisfy the objectives of the relationship. They may be characterized as:

- blanket purchase orders for specified amounts of standardized equipment;
- project-specific integrated relationships; or
- ongoing informal working relationships.

The loss of one or more of these relationships could have a material adverse effect on our business and results of operations.

THE DOLLAR AMOUNT OF OUR BACKLOG, AS STATED AT ANY GIVEN TIME, IS NOT NECESSARILY INDICATIVE OF OUR FUTURE CASH FLOW.

Backlog consists of firm customer orders that have satisfactory credit or financing arrangements in place, for which authorization to begin work or purchase materials has been given and for which a delivery date has been established.

We cannot assure you that the revenues projected in our backlog will be realized, or if realized, will result in profits. To the extent that we experience significant terminations, suspensions or adjustments in the scope of our projects as reflected in our backlog contracts, we could be materially adversely affected.

Occasionally, a customer will cancel or delay a project for reasons beyond our control. In the event of a project cancellation, we are generally reimbursed for our costs but typically have no contractual right to the total revenues expected from such project as reflected in our backlog. In addition, projects may remain in our backlog for extended periods of time. If we were to experience significant cancellations or delays of projects in our backlog, our results of operations and financial condition could be materially adversely affected.

RESTRICTIONS IN OUR DEBT AGREEMENTS COULD LIMIT OUR GROWTH THROUGH ACQUISITIONS AND OTHERWISE AND AFFECT OUR ABILITY TO RESPOND TO CHANGING CONDITIONS.

Our credit facility contains a number of significant covenants. These covenants will limit our ability, among other things, to:

- incur additional indebtedness;
- pay dividends or distributions on our capital stock or repurchase our capital stock;
- repurchase junior indebtedness;
- issue and sell capital stock of our subsidiaries;
- enter into sale and leaseback transactions;
- make certain investments;
- create certain liens on our assets to secure indebtedness;
- enter into transactions with affiliates;
- merge or to consolidate with another company; and
- transfer and sell assets.

Our credit facility requires us to maintain certain financial ratios and satisfy certain financial condition tests, a number of which will become more restrictive over time and may require us to take action to reduce our debt or take some other action in order to comply with them. These restrictions could also limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general, or otherwise conduct necessary corporate activities. We may also be prevented from taking advantage of business opportunities, including complementary acquisitions, that arise because of the limitations imposed on us by the restrictive covenants under the credit facility and the indenture.

A breach of any of these covenants would result in a default under the applicable debt agreement. A default, if not waived, could result in acceleration of the debt outstanding under the agreement and in a default with respect to, and acceleration of, the debt outstanding under the other debt agreement. The accelerated debt would become immediately due and payable. If that should occur, we may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to us.

OUR ABILITY TO ATTRACT AND RETAIN SKILLED LABOR IS CRUCIAL TO THE PROFITABILITY OF OUR FABRICATION AND SERVICES ACTIVITIES.

Our ability to succeed depends in part on our ability to attract and retain skilled manufacturing workers, equipment operators, engineers and other technical personnel. Our ability to expand our operations depends primarily on our ability to increase our labor force. Demand for these workers is currently high and the supply is extremely limited. A significant increase in the wages paid by competing employers could, nevertheless, result in a reduction in our skilled labor force, increases in the rates of wages we must pay or both. If this were to occur, the immediate effect on us would be a reduction in our profits and the extended effect would be diminishment of our production capacity and profitability and impairment of our growth potential.

POSTRETIREMENT HEALTH CARE BENEFITS THAT WE PROVIDE TO CERTAIN FORMER EMPLOYEES EXPOSE US TO POTENTIAL INCREASES IN FUTURE CASH OUTLAYS THAT CANNOT BE RECOUPED THROUGH INCREASED PREMIUMS.

We are obligated to provide postretirement health care benefits to a group of former employees who retired before June 21, 1989. For the year ended December 31, 2000, our cash costs related to these benefits were \$1.8 million. At that date, there were 596 retirees and surviving eligible dependents covered by the specified postretirement benefit obligation. As of December 31, 2000, our accumulated postretirement benefit obligation was approximately \$16.0 million as determined by actuarial calculations. We cannot assure you that the costs of the actual benefits will not exceed those projected or that future actuarial assessments of the extent of those costs will not exceed the current assessment. Inflationary trends in

medical costs may outpace our ability to recoup these increases through higher premium charges, benefit design changes or both. As a result, our actual cash costs of providing this benefit may increase in the future and have a negative impact on our future cash flow and earnings.

OUR INTERNATIONAL OPERATIONS MAY EXPERIENCE INTERRUPTIONS DUE TO POLITICAL AND ECONOMIC RISKS.

We operate our business and market our products and services in oil and gas producing areas throughout the world. We are, therefore, subject to the risks customarily attendant to international operations and investments in foreign countries. These risks include:

- nationalization;
- expropriation;
- war and civil disturbances;
- restrictive actions by local governments;
- limitations on repatriation of earnings;
- changes in foreign tax laws; and
- changes in currency exchange rates.

The occurrence of any of these risks could have an adverse effect on regional demand for our products and services or our ability to provide them. An interruption of our international operations could have a material adverse effect on our results of operations and financial condition.

The occurrence of some of these risks, such as changes in foreign tax laws and changes in currency exchange rates, may have extended consequences.

FUTURE ACQUISITIONS MAY BE DIFFICULT TO INTEGRATE, DISRUPT OUR BUSINESS AND ADVERSELY AFFECT OUR OPERATING RESULTS.

We intend to continue our practice of acquiring other companies, assets and product lines that complement or expand our existing business. We cannot assure you that we will be able to successfully identify suitable acquisition opportunities or finance and complete any particular acquisition. Furthermore, acquisitions involve a number of risks and challenges, including:

- the diversion of our management's attention to the assimilation of the operations and personnel of the acquired business;
- possible adverse effects on our operating results during the integration process;
- potential loss of key employees and customers of the acquired companies;
- potential lack of experience operating in a geographic market of the acquired business;
- an increase in our expenses and working capital requirements; and
- the possible inability to achieve the intended objectives of the combination.

Any of these factors could adversely affect our ability to achieve anticipated levels of cash flow from an acquired business or realize other anticipated benefits of an acquisition.

OUR INSURANCE POLICIES MAY NOT COVER ALL PRODUCTS LIABILITY CLAIMS.

Some of our products are used in potentially hazardous production applications that can cause:

- personal injury;
- loss of life;
- damage to property, equipment or the environment; and

- suspension of operations.

We maintain insurance coverage against these risks in accordance with normal industry practice. This insurance will not protect us against liability for some kinds of events, including events involving pollution or losses resulting from business interruption. We cannot assure you that our insurance will be adequate in risk coverage or policy limits to cover all losses or liabilities that we may incur. Moreover, we cannot assure you that we will be able in the future to maintain insurance at levels of risk coverage or policy limits that we deem adequate. Any future damages caused by our products or services that are not covered by insurance or are in excess of policy limits could have a material adverse effect on our business, results of operations and financial condition.

LIABILITY TO CUSTOMERS UNDER WARRANTIES MAY MATERIALLY AND ADVERSELY AFFECT OUR CASH FLOW.

We typically provide warranties as to the proper operation and conformance to specifications of the equipment we manufacture. Failure of this equipment to operate properly or to meet specifications may increase our costs by requiring additional engineering resources, replacement of parts and equipment or service or monetary reimbursement to a customer. Our warranties are often backed by letters of credit. At December 31, 2000, we had provided to our customers approximately \$931,000 in letters of credit related to warranties. We have in the past received warranty claims and we expect to continue to receive them in the future. To the extent that we should incur warranty claims in any period substantially in excess of our warranty reserve, our results of operations and financial condition could be materially and adversely affected.

WE MAY INCUR SUBSTANTIAL COSTS TO COMPLY WITH OUR ENVIRONMENTAL OBLIGATIONS.

In our equipment fabrication and refurbishing operations, we generate and manage hazardous wastes. These include:

- waste solvents;
- waste paint;
- waste oil;
- washdown wastes; and
- sandblasting wastes.

We attempt to identify and address environmental issues before acquiring properties and to utilize industry accepted operating and disposal practices regarding the management and disposal of hazardous wastes. Nevertheless, either we or others may have released hazardous materials on our properties or in other locations where hazardous wastes have been taken for disposal. We may be required by federal or state environmental laws to remove hazardous wastes or to remediate sites where they have been released. We could also be subjected to civil and criminal penalties for violations of those laws. Our costs to comply with these laws may adversely affect our earnings.

OUR QUARTERLY SALES AND CASH FLOW MAY FLUCTUATE SIGNIFICANTLY.

A substantial amount of our revenues are derived from significant contracts which are often performed over periods of two to six quarters. As a result, our revenues and cash flow may fluctuate significantly from quarter to quarter, depending upon our ability to replace existing contracts with new orders and upon the extent of any delays in completing existing projects.

THE LOSS OF ANY MEMBER OF OUR SENIOR MANAGEMENT COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

Our success depends heavily on the continued services of our senior management. Our senior management consists of a small number of individuals relative to other comparable or larger companies. These are the individuals who possess our bidding, procurement, transportation, logistics, planning, project management, risk management and financial skills. If we lost or suffered an extended interruption in the services of one or more

of our senior officers, our results of operations could be adversely affected. Moreover, we cannot assure you that we will be able to attract and retain qualified personnel to succeed members of our senior management. We do not maintain key man life insurance.

COMPETITION COULD RESULT IN REDUCED PROFITABILITY AND LOSS OF MARKET SHARE.

Contracts for our products and services are generally awarded on a competitive basis, and competition is intense. Historically, the existence of overcapacity in our industry has caused increased price competition in many areas of our business. The most important factors considered by our customers in awarding contracts include:

- the availability and capabilities of our equipment;
- our ability to meet the customer's delivery schedule;
- our price;
- our reputation;
- our experience; and
- our safety record.

In addition, we may encounter obstacles in our international operations that impair our ability to compete in individual countries. These obstacles may include:

- subsidies granted in favor of local companies;
- import duties and fees imposed on us and other foreign operators;
- taxes imposed on foreign operators;
- lower wage rates in foreign countries; and
- fluctuations in the exchange value of the United States dollar compared with the local currency.

Any or all these factors could adversely affect our ability to compete and thus adversely affect our results of operations.

AN ECONOMIC DOWNTURN COULD ADVERSELY AFFECT DEMAND FOR OUR PRODUCTS AND SERVICES.

The economic downturn that began in Southeast Asia in 1997 affected the economies in other regions of the world, including South America and the former Soviet Union, and contributed to the decline in the price of oil and the level of drilling activity. If the United States or European economies were to begin to decline or if the economies of South America or Southeast Asia were to experience further material problems, the demand and price for oil and gas and our products and services could again adversely affect our results of operations.

OUR ABILITY TO COMPETE SUCCESSFULLY IS DEPENDENT ON TECHNOLOGICAL ADVANCES IN OUR PRODUCTS, AND OUR FAILURE TO RESPOND TIMELY OR ADEQUATELY TO TECHNOLOGICAL ADVANCES IN OUR INDUSTRY MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

Our ability to succeed with our long-term growth strategy is dependent on the technological competitiveness of our products. If we are unable to innovate and implement advanced technology in our products, other competitors may be able to compete more effectively with us and our business and results of operations may be adversely affected.

OPERATIONS

We offer our products and services as either integrated systems or individual components primarily through three business lines: traditional production equipment and services, engineered systems and automa-

tion and control systems. See Note 22 to our Consolidated Financial Statements for further information about our reporting segments and geographic areas.

TRADITIONAL PRODUCTION EQUIPMENT AND SERVICES

Traditional production equipment and services consists of production equipment, replacement parts, and used equipment refurbishing and servicing which is sold primarily onshore in North America and in the Gulf of Mexico. Through our NATCO Canada subsidiary, we provide traditional production equipment with modifications to operate in a cold weather environment. The equipment built for the North American oil and gas industry "off the shelf" or in customized variations of standardized equipment requires limited engineering. Traditional production equipment and services are marketed through 33 sales and service centers in the United States, one in Canada and one in Venezuela.

Traditional production equipment includes:

- Separators. Separators are used for the primary separation of a hydrocarbon stream into oil, water and gas. Our separator product line includes:
 - horizontal separators, which are used to separate hydrocarbon streams with large volumes of gas, liquids or foam;
 - vertical separators, which are used to separate hydrocarbon streams containing contaminants including salt and wax;
 - filter separators, which are used to remove particulate contaminants from gas streams; and
 - Thermo Pak(TM) Units, which are used for the combined heating and separating of production in cold climates.
- Oil Dehydration Equipment. Oil dehydrators are used to remove water from oil. The oil dehydration product line includes:
 - horizontal PERFORMAX(R) treaters, which separate oil and water mixtures using gravity and proprietary technology;
 - Dual Polarity(R) electrostatic treaters, which dehydrate oil using high voltage electrical pulsation;
 - vertical treaters, which optimize recovery of condensable, salable hydrocarbons;
 - Vertical Flow Horizontal (VFH(TM)) processors, which combine the advantages of horizontal and vertical vessels to remove gas and water from oil streams; and
 - heater-treaters, which use heat to accelerate the dehydration process.
- Heaters. Heaters are used to reduce the viscosity of oil to improve flow rates and to prevent hydrates from forming in natural gas streams. We manufacture both indirect fired heaters and standardized and customized direct fired heaters. In each system, heat is transferred to the hydrocarbon stream through media such as water, water/glycol, steam, salt or flue gas. Our heater product line includes:
 - water bath heaters;
 - vaporizers used to vaporize propane and other liquefied gases;
 - salt bath heaters;
 - steam bath heaters; and
 - Controlled Heat Flux (CHF(TM)) heaters, which use flue gas to create a heat transfer medium.
- Gas Conditioning Equipment. Gas conditioning equipment removes contaminants from gas streams. Gas conditioning equipment includes:
 - glycol dehydration equipment, which exposes gas streams to glycol in order to remove water vapor;

- amine systems, which use amine to remove acidic gases such as hydrogen sulfide and CO(2) from gas streams;
 - conditioning equipment used to remove hydrogen sulfide from gas;
 - Glymine()^(R)() units, which combine the effects of glycol equipment and amine systems;
 - the BTEX-Buster()^(R)(), which virtually eliminates the emissions of volatile hydrocarbons associated with glycol dehydration reboilers; and
 - Desi-Dri()^(R)() Systems, which use highly compressed drying agents to remove water vapor from gas streams.
- Gas Processing Equipment. We offer standard and custom processing equipment for the extraction of liquid hydrocarbons to meet feed gas and liquid product requirements. We manufacture several standard mechanical refrigeration units for the recovery of salable hydrocarbon liquids from gas streams. Low Temperature Extractor (LTX()^(R)()) units are mechanical separation systems designed for handling high-pressure gas at the wellhead. These systems remove liquid hydrocarbons from gas streams more efficiently and economically than other methods.
 - Water Treatment Equipment. We design and manufacture water treatment and conditioning equipment for the removal of contaminants from water extracted in oil and gas production. Oil producers use our PERFORMAX()^(R)() Matrix Plate Coalescer in primary separators of oil and water and final skimming. Flow splitters remove gases from an oil-water dispersion, separate oil and water and discharge the oil and/or emulsion through controllable outlets.
 - Equipment Refurbishment. We source, refurbish and integrate used oil and gas production equipment. Customers that purchase this equipment enjoy reduced delivery times and lower equipment costs relative to new equipment. The used equipment market is focused primarily in North America, both onshore and offshore, although we have observed a growing interest internationally. We have entered into agreements with major, large independent oil companies in both the United States and Canada to evaluate, track and refurbish used production equipment and may act as a broker between another oil company and our customer or may purchase, refurbish and sell used equipment to our customers. We believe that we have one of the largest databases in the North American oil and gas industry of available surplus production equipment. This database, coupled with our extensive refurbishing facilities and experience, enables us to respond to customer requests for refurbished equipment quickly and efficiently.
 - Parts, Service and Training. We provide replacement parts for our own equipment and for equipment manufactured by others. Each branch of our marketing network also serves as a local parts and service business. We have service employees stationed in some branches of Wilson Supply Company and National-Oilwell, Inc., and also offer operational and safety training to the oil and gas production industry. We use training programs as a marketing tool for our other products and services.

ENGINEERED SYSTEMS

We design, engineer and manufacture engineered systems for large production development projects throughout the world. We also provide start-up services for our engineered products. Engineered systems typically require a significant amount of technology, engineering and project management.

We market our engineered systems through our direct sales forces based in Houston, Calgary, London, Tokyo, Kuala Lumpur and Singapore, augmented by independent representatives in other countries. We also use the unique oil testing capabilities at our research and development facilities to market engineered systems. This capability enables us to determine equipment specifications that best suit customers' requirements.

Engineered systems include:

- Integrated Oil and Gas Processing Trains. These consist of multiple units that process oil and gas from primary separation through contaminant removal. For example, we designed, manufactured and

assembled a module for a production facility situated off the coast of West Africa that is capable of processing 20,000 barrels of oil, 4,000 barrels of water and 24 million standard cubic feet of gas per day. We also designed, manufactured and installed process systems for BP Exploration (Alaska), Inc.'s Badami development on the North Slope of Alaska and its Northstar development, also located on the North Slope.

- Floating Production Systems. These consist of large skid-mounted processing units used in conjunction with semi-submersible, converted tankers and other floating production vessels. Floating production equipment must be specially designed to overcome the detrimental effects of wave motion on floating vessels. We pioneered and patented the first wave-motion production vessel internal system and continue to advance this technology at our research and development facility using a wave-motion table, which simulates a variety of sea states.
- Dehydration and Desalting Systems. Dehydration and desalting involves the removal of water and salt from an oil stream. Desalting is a specialized form of dehydration. In this process, water is injected into an oil stream to dissolve the salt and the saltwater is then removed from the stream. Large production projects often use electrostatic technology to desalt oil. We believe that we are the leading developer of electrostatic technologies for oil treating and desalting. One of our dehydration and desalting systems, the Electro Dynamic(TM) Desalter, can be used in oil refineries, where stringent desalting requirements have grown increasingly important. These requirements have increased as crude quality has declined and catalysts have become more sensitive and sophisticated, requiring lower levels of contaminants. The reduced number of vessels employed by this system is particularly important in refinery applications where space is at a premium.
- Large Gas Processing Facilities. We provide large gas processing facilities for the separation, heating, dehydration and removal of liquids and contaminants to produce pipeline-quality gas. We also design, manufacture and, in some cases, operate gas-processing facilities that remove CO(2) from gas streams. These facilities use membrane technology that provides the most cost-effective separation solution for gas streams containing more than 20% CO(2). A primary market for this application is production from gas wells, such as those located in Southeast Asia, which have high levels of naturally occurring CO(2). Another market is production from wells, such as those located in West Texas, in which CO(2) injection is used to enhance the recovery of oil and gas reserves.
- Oily Water Cleanup Systems. We design and engineer systems that, through the use of liquid/liquid hydrocyclone technology and induced or dissolved gas flotation technology, remove oil and solids from a produced water stream. Oily water cleanup is often required prior to the disposal or reinjection of produced water.
- Downstream Facilities. We offer several technologies that have crossover applications in the refinery and petrochemical sectors. Most involve aspects of oil treating and water treating. We discussed above the use in refineries of one of our dehydration and desalting systems. In addition, we can provide DOX(TM) units to ethylene processors that clean both heavy and light dispersed oil from water.

AUTOMATION AND CONTROL SYSTEMS

The primary market for automation and control systems is in offshore applications throughout the world. We market and service these products through a three-branch network primarily located in the Gulf Coast area. These automation and controls systems include:

- Control Systems. We design, assemble and install pneumatic, hydraulic, electrical and computerized control panels and systems. These systems monitor and change key parameters of oil and gas production systems. Key parameters include wellhead flow control and emergency shutdown of production and safety systems. A control system consists of a control panel and related tubing, wiring, sensors and connections.

- Engineering and Field Services. We provide start-up support, testing, maintenance, repair, renovation, expansion and upgrade of control systems including those designed or installed by competitors. Our design and engineering staff also provide contract electrical engineering services.
- SCADA Systems. Supervisory control and data acquisition ("SCADA") systems provide remote monitoring and control of equipment, production facilities, pipelines and compressors via radio, cellular phone, microwave and satellite communication links. SCADA systems reduce the number of personnel and frequency of site visits and allow for continued production during periods of emergency evacuation, thereby reducing operating costs.

MARKETING

Our products and services are marketed primarily through an internal sales force augmented by technical applications specialists for specific customer requirements. In addition, we maintain agency relationships in most energy producing regions of the world to enhance our efforts in countries where we do not have employees. Our traditional production equipment and services business has approximately 34 operating branches in North America through which we sell production equipment, spare parts and services directly to oil and gas operators. Our engineered systems business typically involves a significant pre-award effort during which we must provide technical qualifications, evaluate the requirements of the specific project, design a conceptual solution that meets the project requirements and estimate our cost to provide the system to the customer in the time frame required. Our automation and control systems business is primarily marketed through our internal sales force.

CUSTOMERS

We devote a considerable portion of our marketing time and effort to developing and maintaining relationships with key customers. Some of these are project specific, such as our participation in several Alaskan projects with BP. However, our customer base ranges from independent operators to major and national oil companies worldwide. In 2000, CTOC and Chevron, and affiliates, accounted for approximately 20% and 8%, respectively, of our consolidated revenue. Our level of technical expertise, extensive distribution network and breadth of product offerings contributes to the maintenance of good working relationships with our customers.

BACKLOG

Backlog consists of firm customer orders for which satisfactory credit or financing arrangements have been made, authorization has been given to begin work or purchase materials and a delivery date has been scheduled.

Our sales backlogs at December 31, 2000, 1999 and 1998, were \$49.9 million, \$76.5 million and \$46.6 million, respectively. Backlog at December 31, 1999 included a \$73.0 million booking for one customer, CTOC, which contributed 20% of total revenues for the year ended December 31, 2000. Backlog at December 31, 2000 included \$12.5 million related to CTOC. Backlogs at December 31, 2000, 1999 and 1998, less the CTOC project, were \$37.4 million, \$18.0 million and \$46.6 million, respectively. The improvement in backlog for the year ended December 31, 2000, excluding CTOC, was consistent with our expectations and was due to increased drilling activity in 2000. However, the improved backlog for 2000 was less than the backlog level at December 31, 1998 due to fewer awards of large engineered systems projects by our customers since the overall slowdown in the energy industry in 1999. No individual customer provided more than 10% of total revenues for the year ended December 31, 1999 and the nine months ended December 31, 1998.

Occasionally, a customer will cancel or delay a project for reasons beyond our control. In the event of a project cancellation, we generally are reimbursed for certain costs but typically have no contractual right to the total revenues reflected in our backlog. In addition, projects may remain in our backlog for extended periods of time. If we were to experience significant cancellations or delays of projects in our backlog, our results of operations and financial condition could be materially adversely affected.

RESEARCH AND DEVELOPMENT

We believe we are a leader in the development of oil and gas industry production equipment technology. We pioneered many of the original separation technologies for converting unprocessed hydrocarbon fluids into salable oil and gas. For example, we developed:

- the first high capacity oil and gas separator;
- the first emulsion treating systems;
- Dual Polarity(TM) electrostatic oil treaters;
- DOX(TM) and OSX(TM) water filtration systems;
- high pressure indirect heaters; and
- PERFORMAX(R) oil and water treating systems.

Our wave-motion compensating separator has become the industry standard for floating production applications, and our electrostatic oil treating technology is the most advanced in the industry. As of December 31, 2000, we held approximately 125 active U.S. and foreign patents and numerous U.S. and foreign trademarks. We also have an application pending for one additional U.S. patent. In addition, we are licensed under approximately seven patents held by others.

We operate a research and development facility in Tulsa, Oklahoma, at which a number of test devices are used to simulate and analyze oil and gas production processes. At our manufacturing facility in Pittsburg, California, we are engaged in active, ongoing research and development in the area of membrane technology.

At December 31, 2000, NATCO had approximately 15 employees engaged in research and development activities.

COMPETITION

Contracts for our products and services are generally awarded on a competitive basis, and competition is intense. The most important factors considered by customers in awarding contracts include the availability and capabilities of equipment, the ability to meet the customer's delivery schedule, price, reputation, experience and safety record.

Historically, the existence of overcapacity in the industry has caused increased price competition in many areas of the business. In addition, we may encounter obstacles in our international operations that impair our ability to compete in individual countries. These obstacles may include:

- subsidies granted in favor of local companies;
- taxes, import duties and fees imposed on foreign operators;
- lower wage rates in foreign countries; and
- fluctuations in the exchange value of the United States dollar compared with the local currency.

Any or all these factors could adversely affect our ability to compete and thus adversely affect results of operations.

Our primary competitors in our traditional production equipment and services business are several publicly-traded companies, as well as numerous privately held, mainly regional companies. Competitors in our engineered systems business include Baker Hughes Process Systems, a division of Baker Hughes, Kvaerner

Process Systems, Hanover APS, U.S. Filter and numerous other engineering and construction firms. The primary competitors in our automation and control systems business are several publicly-traded companies and numerous privately held companies operating in the area of the Gulf of Mexico.

We believe that we are one of the largest crude oil and natural gas production equipment providers in North America and that our size, research and development capabilities, brand names and marketing organization provide us with a competitive advantage over the other participants in the industry.

ENVIRONMENTAL MATTERS

NATCO is subject to environmental regulation by federal, state and local authorities in the United States and in several foreign countries. Although we believe that we are in substantial compliance with all applicable environmental laws, rules and regulations ("laws"), the field of environmental regulation can change rapidly with the enactment or enhancement of laws and stepped up enforcement of these laws, either of which could require us to change or discontinue certain business activities. At present, NATCO is not involved in any material environmental matters of any nature and is not aware of any material environmental matters threatened against it.

EMPLOYEES

At December 31, 2000, we had approximately 1,411 employees. Of these, approximately 145 were represented under collective bargaining agreements that extend through July 2001. We believe that our relationships with our employees are satisfactory.

ITEM 2. PROPERTIES

We operate 6 primary manufacturing plants ranging in size from approximately 11,400 square feet to approximately 131,000 square feet of manufacturing space. We also own and lease distribution and service centers, sales offices, and warehouses. NATCO leases its corporate headquarters in Houston, Texas. At December 31, 2000, we owned or leased approximately 884,000 square feet of facility of which approximately 424,000 square feet was leased, and approximately 460,000 square feet was owned. Of the total manufacturing space, approximately 274,000 was located in the United States and approximately 156,000 was located in Canada.

The following chart summarizes the number of facilities owned or leased by NATCO by geographic region and business segment.

	UNITED STATES -----	CANADA -----	OTHER -----
Traditional Production Equipment and Services.....	5	--	3
Engineered Systems.....	34	--	2
Automation and Control Systems.....	3	--	1
NATCO Canada.....	--	2	--
	---	---	---
Totals.....	42	2	6
	===	===	===

ITEM 3. LEGAL PROCEEDINGS

Our company is a party to various routine legal proceedings that are incidental to its business activities. We insure against the risk of these proceedings to the extent deemed prudent by our management, but we offer no assurance that the type or value of this insurance will meet the liabilities that may arise from any pending or future legal proceedings related to our business activities. We do not, however, believe the pending legal proceedings, individually or taken together, will have a material adverse effect on our results of operations or financial condition.

-ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

NATCO's authorized common stock consists of 45,000,000 shares of Class A common stock and 5,000,000 shares of Class B common stock. There were 15,027,625 Class A shares and 699,874 Class B shares outstanding as of March 15, 2001. The approximate number of record holders of our Class A shares and Class B shares was 35 and 6, respectively, at March 15, 2001. The number of record holders of our Class A shares does not include the stockholders for whom shares are held in a "nominee" or "street" name. There were 500,000 authorized preferred shares at March 15, 2001, of which none was issued. Our Class A common stock is traded on the New York Stock Exchange under the ticker symbol NTG.

The following table sets forth, for the calendar quarters indicated, the high and low sales prices of our Class A common stock reported by the NYSE. No information is provided for the period prior to our common stock offering completed on January 27, 2000.

	CLASS A COMMON STOCK	
	HIGH	LOW
2000		
First Quarter.....	\$14.9370	\$10.2500
Second Quarter.....	11.2500	7.7500
Third Quarter.....	10.9375	7.8750
Fourth Quarter.....	8.8750	6.5000

We do not intend to declare or pay any dividends on our common stock in the foreseeable future, but rather intend to retain any future earnings for use in the business. Currently, our bank credit facilities restrict the amount of dividends and other distributions that our operating subsidiaries may remit to us. Since NATCO is a holding company, these restrictions have the practical effect of precluding us from paying dividends on our common stock.

ITEM 6. SELECTED FINANCIAL DATA

The following summary consolidated historical financial information for the periods and the dates indicated should be read in conjunction with our consolidated historical financial statements. During 1998, NATCO changed its fiscal year-end to December 31 from March 31.

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	NINE MONTHS ENDED DECEMBER 31, 1998	YEAR ENDED MARCH 31, ----- 1998 1997 -----	
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Statement of Operations					
Data(1):					
Revenues.....	\$224,552	\$169,948	\$145,611	\$202,023	\$126,657
Cost of goods sold.....	162,757	127,609	115,521	161,801	100,803
	-----	-----	-----	-----	-----
Gross profit.....	61,795	42,339	30,090	40,222	25,854
Selling, general and administrative expense.....	39,456	32,437	24,530	28,553	23,313
Depreciation and amortization expense....	5,111	4,681	1,473	1,322	862
Unusual charges.....	1,528	--	--	--	--
Interest expense.....	1,588	3,256	2,215	2,992	1,861
Interest cost on postretirement liability.....	1,287	1,048	786	1,048	957
Revaluation (gain) loss on postretirement liability.....	--	(1,016)	53	159	1,466
Interest income.....	(181)	(256)	(227)	(140)	(116)
	-----	-----	-----	-----	-----
Income (loss) before income taxes.....	13,006	2,189	1,260	6,288	(2,489)
Income tax provision (benefit).....	5,345	1,548	608	1,141	(659)
	-----	-----	-----	-----	-----
Income before cumulative effect of a change in accounting principle....	\$ 7,661	\$ 641	\$ 652	\$ 5,147	\$ (1,830)
	=====	=====	=====	=====	=====
Basic earnings (loss) per share from continuing operations.....	\$ 0.52	\$ 0.07	\$ 0.08	\$ 0.68	\$ (0.31)
Diluted earnings (loss) per share from continuing operations.....	0.51	0.06	0.07	0.64	(0.28)
Basic earnings per share...	0.52	0.07	0.08	0.78	0.67
Diluted earnings per share.....	0.51	0.06	0.07	0.73	0.64
Balance Sheet Data					
(at the end of the period)					
Total assets.....	\$153,126	\$106,830	\$118,412	\$ 95,413	\$ 70,044
Stockholders' equity (deficit).....	86,179	28,514	24,190	5,419	(6,737)
Long-term debt.....	14,959	31,180	41,777	33,719	27,566
Other long-term obligations.....	14,589	15,853	15,587	15,194	14,608

(1) In June 1997, we distributed our investment in Process Technology Holdings, Inc. ("PTH") to its then sole stockholder in a tax-free transaction. In accordance with generally accepted accounting principles, we accounted for the results of operations of PTH as discontinued operations for all periods presented. Accordingly, the net income of PTH is excluded from income (loss) from continuing operations in the statement of operations data for the periods presented.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Company's historical results of operations and financial condition should be read in conjunction with our consolidated financial statements and notes thereto.

OVERVIEW

We offer our products and services as either integrated systems or individual components primarily through three business lines:

- Traditional production equipment and services, through which we provide standardized components, replacement parts and used components and equipment servicing;
- Engineered systems, through which we provide customized, large scale integrated oil and gas production systems; and
- Automation and control systems, through which we provide control panels and systems that monitor and control oil and gas production.

For financial reporting purposes, however, we report our Canadian operations, which combine traditional production equipment and services and engineered systems, as its own segment. We therefore report four separate business segments: traditional production equipment and services, engineered systems, automation and control systems and Canadian operations.

We recognize revenues from significant contracts (contracts greater than \$250,000 and longer than four months in duration) and all automation and control systems contracts and orders on the percentage of completion method. Earned revenue is based on the percentage of costs incurred to date relative to total estimated costs. If estimated total costs on any contract or work-in-process indicate a loss, we recognize the entire loss immediately. We generally recognize revenues and earnings to which the percentage of completion method applies over a period of two to six quarters. We record revenues on other sales as shipments are made.

In January 2000, we completed our initial public offering of common stock, resulting in the issuance of 5,178,807 shares of common stock with net proceeds of \$46.7 million. In July 2000, we changed our presentation of certain assets that were acquired from The Cynara Company 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.

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (each a "Forward-Looking Statement"). The words "believe," "expect," "plan," "intend," "estimate," "project," "will," "could," "may" and similar expressions are intended to identify Forward-Looking Statements. Forward-Looking Statements in this document include, but are not limited to, discussions regarding synergies and opportunities resulting from recent acquisitions (see "-- Acquisitions"), indicated trends in the level of oil and gas exploration and production and the effect of such conditions on the Company's results of operations (see "-- Industry and Business Environment") and future uses of and requirements for financial resources (see "-- Liquidity and Capital Resources"). Our expectations about our business outlook, customer spending, oil and gas prices and the business environment for NATCO and the industry in general are only our expectations regarding these matters. No assurance can be given that actual results may not differ materially from those in the Forward-Looking Statements herein for reasons including, but not limited to: market factors such as pricing and demand for petroleum related products, the level of petroleum industry exploration and production expenditures, the effects of competition, world economic conditions, the level of drilling activity, the legislative environment in the United States and other countries, policies of the Organization of Petroleum Exporting Countries, conflict in major petroleum producing or consuming regions, the development of technology which could lower overall finding and development costs,

weather patterns and the overall condition of capital and equity markets for countries in which NATCO operates.

The following discussion should be read in conjunction with the financial statements, related notes and other financial information appearing elsewhere in this Form 10-K. Readers are also urged to carefully review and consider the various disclosures advising interested parties of the factors that affect the Company, including without limitation, the disclosures made under the caption "Business -- Risks Relating to Our Business" and the other factors and risks discussed in our Registration Statement on Form S-1/A and subsequent reports filed with the Securities and Exchange Commission. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any Forward-Looking Statement to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any Forward-Looking Statement is based.

ACQUISITIONS

In November 1998, we acquired all the outstanding common stock of The Cynara Company, a designer and manufacturer of specialized production equipment utilizing membrane technology to separate bulk CO(2) from natural gas streams, for approximately \$15.5 million, 500,000 shares of our common stock and the right to receive additional shares of common stock based upon the financial performance of the Cynara assets. Ultimately, we had issued 743,981 additional shares as of December 31, 2000.

In January 2000, we acquired all the outstanding common stock of Porta-Test International, Inc., a manufacturer of centrifugal devices used to enhance the effectiveness of separation equipment, for approximately \$7.0 million and the right to receive additional payments based upon the performance of certain Porta-Test assets.

In February 2000, we acquired all the outstanding common stock of Modular Production Equipment, Inc. ("MPE"), a designer and manufacturer of wastewater treatment separation systems specializing in hydrocyclone technology, for approximately \$2.7 million.

In April 2000, we acquired all the outstanding common stock of Engineered Specialties Inc. ("ESI"), a provider of proprietary technologies for oily water treatment and heavy metals removal from production at or near the wellhead, for approximately \$7.1 million.

On March 19, 2001, we acquired all the outstanding share capital of Axsia Group Limited, a privately held process and design company based in the United Kingdom, for approximately \$45.8 million. Axsia specializes in the design and supply of water reinjection systems for oil and gas fields, oily water treatment, oil separation, hydrogen production and other process equipment systems. This acquisition was financed with borrowings under our new credit facility.

We accounted for each of the above transactions using the purchase method of accounting.

INDUSTRY AND BUSINESS ENVIRONMENT

Generally, oil and gas exploration and production companies reduce exploration and development activity during periods of weak oil prices and demand and increase this activity during periods of strong oil prices and demand. The extent to which the revenues of the industry increase depends in part upon the success of the exploration efforts. In general, these revenue increases lag expansion of exploration and development capital budgets in times of recovery in the oil and gas industry. These lag times can be up to several years in offshore operations but are generally shorter for onshore operations.

Changing production profiles in existing fields also increase the demand for products and services in the industry. As existing fields are reworked or enhanced recovery methods are employed due to depletion, additional and more complex equipment may be required to produce oil and gas from these fields. This can result from changes in the mix of oil and gas produced by the field or an increase in water, CO(2) or other naturally occurring contaminants or as the result of enhanced recovery techniques. In addition, many new oil and gas fields produce lower quality or contaminated hydrocarbon streams that require more complex

production equipment. Examples include CO(2) rich formations in West Texas and Southeast Asia and heavy crude in Western Canada and in the Orinoco Delta in Venezuela.

Throughout much of 1999, the oil and gas industry was suffering the effects of a significant decline in overall drilling and production expenditures by oil and gas operators due to low hydrocarbon prices. Since our business is closely linked to the market conditions of our customers, lower drilling and production expenditures can result in a reduction of our revenues. Our traditional production equipment and services business segment was affected most significantly as this business line primarily provides replacement parts used in oil and gas production.

An indicator of capital spending in the oil and gas industry is commodity prices. Energy prices were low in 1998 and 1999 and began to rise steadily in mid-year as production cuts by OPEC and other oil producing countries reduced excess inventory levels. Energy prices remained high until the spring of 2000 when these same producers elected to increase production to bring energy prices down to more sustainable levels. The following table summarizes the average prices of oil and gas during the years ended December 31, 2000, 1999 and 1998, and the actual spot prices of oil and gas at March 15, 2001:

	MARCH 15, 2001	DECEMBER 31,		
		2000	1999	1998
Oil (per barrel)(1).....	\$26.58	\$30.37	\$19.30	\$14.38
Gas (per MMBtu)(2).....	\$ 4.92	\$ 4.30	\$ 2.27	\$ 2.08

(1) Based on West Texas Intermediate spot prices for the dates indicated.

(2) Based on the NYMEX Henry Hub prices for the dates indicated.

Another indicator of capital spending is the number of operating drilling rigs. The average U.S. and international operating rig counts, as published weekly by Baker Hughes, increased in 2000 when compared to 1999. The following table summarizes the average U.S., Canadian and international operating rig counts for the years ended December 31, 2000 and 1999:

	DECEMBER 31,		CHANGE	
	2000	1999	#	%
U.S.....	916	608	308	50.7
Canada.....	344	246	98	39.8
International.....	652	588	64	10.9
Total.....	1,912	1,442	470	32.6
	=====	=====	===	

The increase in oil prices from 1999 to 2000 has had a positive effect on our overall sales for 2000 as compared to 1999. The recent price and rig count improvements have contributed to improved overall industry conditions and should also cause our customers to continue to increase their exploration and development efforts. Although energy price and rig count increases are indicators that additional oil and gas production may occur in 2001, there can be no assurance that overall production will increase, that an increase in production trends will continue through 2001 or that such an increase in production would result in an increase in revenues for our company.

The following discussion of our historical results of operations and financial condition should be read in conjunction with our audited consolidated financial statements and notes thereto.

RESULTS OF OPERATIONS

	FOR THE YEAR ENDED DECEMBER 31,		
	2000	1999	1998(1)
	(IN THOUSANDS)		
Statement of Operations Data:			
Revenues.....	\$224,552	\$169,948	\$200,830
Cost of goods sold.....	162,757	127,609	160,093
Gross profit.....	61,795	42,339	40,737
Selling, general and administrative expense.....	39,456	32,437	31,898
Depreciation and amortization expense.....	5,111	4,681	1,883
Unusual charges.....	1,528	--	--
Interest expense.....	1,588	3,256	2,919
Interest cost on postretirement liability.....	1,287	1,048	1,048
Revaluation (gain) loss on postretirement liability.....	--	(1,016)	53
Interest income.....	(181)	(256)	(227)
Income before income taxes.....	13,006	2,189	3,163
Provision for income taxes.....	5,345	1,548	606
Income before cumulative effect of change in accounting principle.....	7,661	641	2,557
Cumulative effect of change in accounting principle (net of income taxes of \$7)(2).....	(10)	--	--
Net income.....	\$ 7,671	\$ 641	\$ 2,557

- (1) In 1998, we changed our fiscal year end from March 31 to December 31. For comparative purposes, we have presented unaudited statement of operations data for the twelve months ended December 31, 1998.
- (2) In 2000, we changed our method of accounting for gains and losses on our postretirement benefit obligation which resulted in a cumulative change in accounting principle.

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:

REVENUES:	FOR THE YEAR ENDED DECEMBER 31,		CHANGE	
	2000	1999	DOLLARS	PERCENTAGE
	(IN THOUSANDS, EXCEPT PERCENTAGES)			
Traditional Equipment and Services.....	\$ 83,428	\$ 62,588	\$20,840	33%
Engineered Systems.....	67,821	52,518	15,303	29
Automation and Control Systems.....	42,761	41,843	918	2
NATCO Canada.....	40,317	19,757	20,560	104
Corporate and Eliminations.....	(9,775)	(6,758)	(3,017)	(45)
Total.....	\$224,552	\$169,948	\$54,604	32%

Revenues from our traditional equipment and services business segment for the year ended December 31, 2000 increased \$20.8 million, or 33%, to \$83.4 million from \$62.6 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. Partially offsetting this increase was a decline in service revenues of \$2.8 million related to a gas plant operation that was closed in the fourth quarter of 1999. Affiliated revenues for this business segment were approximately \$1.3 million and \$1.2 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 affiliated revenues of \$286,000, as compared to \$1.7 million of affiliated 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 affiliated revenues from \$2.3 million for the year ended December 31, 1999 to \$4.1 million for the year ended December 31, 2000.

Revenues from our NATCO Canada business segment for the year ended December 31, 2000 increased \$20.6 million, or 104%, to \$40.3 million from \$19.7 million for the year ended December 31, 1999. This increase was partially due to the acquisition of Porta-Test, which contributed revenues of \$6.1 million for the year ended December 31, 2000, and an increase in affiliated revenues of \$2.6 million associated with large projects, including CTOC. The NATCO Canada business segment results included two significant gas plant projects for Chevron Canada and several projects for Pemex completed in 2000. Overall industry market conditions in Canada improved, which was consistent with an increase in Canadian rig count during 2000. Affiliated revenue for the year ended December 31, 2000 was \$4.1 million, as compared to \$1.5 million for the year ended December 31, 1999.

The change in revenues for corporate and eliminations represents the elimination of revenues of affiliates as discussed above.

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 27% 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:

GROSS PROFIT:	FOR THE YEAR ENDED DECEMBER 31,		CHANGE	
	2000	1999	DOLLARS	PERCENTAGE
	(IN THOUSANDS, EXCEPT PERCENTAGES)			
Traditional Equipment and Services.....	\$20,143	\$16,868	\$ 3,275	19%
Engineered Systems.....	24,362	13,490	10,872	81
Automation and Control Systems.....	8,824	8,893	(69)	(1)
NATCO Canada.....	8,466	3,088	5,378	174
Total.....	\$61,795	\$42,339	\$19,456	46%

Gross profit from our traditional equipment and services business segment for the year ended December 31, 2000 increased \$3.3 million, or 19%, to \$20.1 million from \$16.9 million for the year ended December 31, 1999. This increase in margin was primarily due to a 33% increase in revenues from this

segment and improved margins on export parts and services. As a percentage of revenue, gross margins for the segment were 24% and 27% 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 affiliated 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.

Gross profit from our NATCO Canada business segment for the year ended December 31, 2000 increased \$5.4 million, or 174%, to \$8.5 million from \$3.1 million for the year ended December 31, 1999. This increase in gross margin was primarily due to a 104% increase in revenues from this segment. In addition, Porta-Test, which we acquired in January 2000, provided margins of \$2.8 million for the year ended December 31, 2000. As a percentage of revenue, gross margins for this segment were 21% and 16% for the years ended December 31, 2000 and 1999, respectively.

Selling, General and Administrative Expense. Selling, general and administrative expense for the year ended December 31, 2000 increased \$7.0 million, or 22%, to \$39.5 million from \$32.5 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, 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 (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 recorded as 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 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 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.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO TWELVE MONTHS ENDED DECEMBER 31, 1998

Revenues. Revenues for the year ended December 31, 1999 decreased \$30.9 million, or 15%, to \$169.9 million from \$200.8 million for the twelve months ended December 31, 1998. The following table summarizes revenues by business segment for the year ended December 31, 1999 and the twelve months ended December 31, 1998:

REVENUES:	FOR THE YEAR ENDED	FOR THE TWELVE MONTHS	CHANGE	
	DECEMBER 31, 1999	ENDED DECEMBER 31 1998(1)	DOLLARS	PERCENTAGE
	(IN THOUSANDS, EXCEPT PERCENTAGES)			
Traditional Equipment and Services.....	\$ 62,588	\$ 71,684	\$ (9,096)	(13)%
Engineered Systems.....	52,518	44,872	7,646	17
Automation and Control Systems.....	41,843	46,583	(4,740)	(10)
NATCO Canada.....	19,757	43,490	(23,733)	(55)
Corporate and Eliminations.....	(6,758)	(5,799)	(959)	(17)
Total.....	\$169,948	\$200,830	\$ (30,882)	(15)%

(1) In 1998, we changed our fiscal year end from March 31 to December 31. For comparative purposes, we have presented unaudited statement of operations data for the twelve months ended December 31, 1998.

Revenues from our traditional equipment and services business segment for the year ended December 31, 1999 decreased \$9.1 million, or 13%, to \$62.6 million from \$71.7 million for the twelve months ended December 31, 1998. This decrease was due to an overall decline in the oil and gas industry during the fourth

quarter of 1998 and throughout 1999. This decline was consistent with the reduction in the average number of drilling rigs operating in the United States and Canada from 1,089 in 1998 to 854 in 1999. Affiliated revenues for this business segment were \$1.2 million and \$700,000 for the year ended December 31, 1999 and the twelve months ended December 31, 1998, respectively.

Revenues from our engineered systems business segment for the year ended December 31, 1999 increased \$7.6 million, or 17%, to \$52.5 million from \$44.9 million for the twelve months ended December 31, 1998. This increase relates primarily to the acquisition of Cynara, as twelve months of operations were included in the 1999 results versus only one month of operations during 1998. Affiliated revenues for this business segment were \$1.7 million and \$1.5 million for the year ended December 31, 1999 and the twelve months ended December 31, 1998, respectively.

Revenues from our automation and control systems business segment for the year ended December 31, 1999 decreased \$4.7 million, or 10%, to \$41.8 million from \$46.6 million for the twelve months ended December 31, 1998. This decrease was due to the completion of a significant project during 1998. Affiliated revenues for this business segment were \$2.3 million and \$1.1 million for the year ended December 31, 1999 and the twelve months ended December 31, 1998, respectively.

Revenues from our NATCO Canada business segment for the year ended December 31, 1999 decreased \$23.7 million, or 55%, to \$19.8 million from \$43.5 million for the twelve months ended December 31, 1998. This decrease was due primarily to the overall decline in the oil and gas industry and the completion of significant projects during 1998. Affiliated revenues for this business segment were \$1.5 million and \$2.5 million for the year ended December 31, 1999 and the twelve months ended December 31, 1998, respectively.

The change in revenues for corporate and eliminations represents the elimination of revenues of affiliates as discussed above.

Gross Profit. Gross profit for the year ended December 31, 1999 increased \$1.6 million, or 4%, to \$42.3 million, from \$40.7 million for the twelve months ended December 31, 1998. As a percentage of revenue, gross margins improved to 25% for the year ended December 31, 1999 from 20% for the twelve months ended December 31, 1998. The following table summarizes gross profit by business segment for the year ended December 31, 1999 and the twelve months ended December 31, 1998:

GROSS PROFIT:	FOR THE YEAR ENDED DECEMBER 31, 1999	FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998(1)	CHANGE	
			DOLLARS	PERCENTAGE
(IN THOUSANDS, EXCEPT PERCENTAGES)				
Traditional Equipment and Services.....	\$16,868	\$17,889	\$(1,021)	(6)%
Engineered Systems.....	13,490	8,045	5,445	68
Automation and Control Systems.....	8,893	8,852	41	--
NATCO Canada.....	3,088	5,951	(2,863)	(48)
Total.....	\$42,339	\$40,737	\$ 1,602	4%
	=====	=====	=====	

(1) In 1998, we changed our fiscal year end from March 31 to December 31. For comparative purposes, we have presented unaudited statement of operations data for the twelve months ended December 31, 1998.

Gross profit from our traditional equipment and services business segment for the year ended December 31, 1999 decreased \$1.0 million, or 6%, to \$16.9 million from \$17.9 million for the twelve months ended December 31, 1998. This decrease was due to a 13% decline in revenues. As a percentage of revenue, gross margins for this business segment were 27% and 25% for the year ended December 31, 1999 and the twelve months ended December 31, 1998, respectively.

Gross profit from our engineered systems business segment for the year ended December 31, 1999 increased \$5.4 million, or 68%, to \$13.5 million from \$8.0 million for the twelve months ended December 31, 1998. This increase was primarily due to the contribution of \$9.2 million from Cynara, included in the 1999

results, as compared to approximately \$400,000 contributed by Cynara for the one month of operations included in the 1998 results. As a percentage of revenues, gross margin for this business segment were 26% and 18% for the year ended December 31, 1999 and the twelve months ended December 31, 1998, respectively.

Gross profit from our automation and control systems business segment remained relatively constant when comparing the year ended December 31, 1999 and the twelve months ended December 31, 1998. As a percentage of revenue, gross margins were 21% and 19% for these periods, respectively.

Gross profit from our NATCO Canada business segment for the year ended December 31, 1999 decreased \$2.9 million, or 48%, to \$3.1 million from \$6.0 million for the twelve months ended December 31, 1998. Gross profit decreased due to a 55% decline in revenue during the same period. As a percentage of revenue, gross margins were 16% and 14% for the year ended December 31, 1999 and the twelve months ended December 31, 1998, respectively.

Selling, General and Administrative Expense. Selling, general and administrative expense for the year ended December 31, 1999 increased \$539,000, or 2%, to \$32.4 million from \$31.9 million for the twelve months ended December 31, 1998. Overall, expenses were reduced in the United States and Canada, due to a downturn in the industry. These expense reductions were offset, however, due to the addition of Cynara, which provided \$1.9 million of selling, general and administrative expense for the year ended December 31, 1999. In addition, during 1999 we recorded non-recurring costs of approximately \$400,000 primarily associated with the retirement of an officer and approximately \$600,000 related to our purchase of stock options previously granted to our chief executive officer. Also in 1999, we revised previous estimates related to the remaining costs associated with the closure of NATCO (UK) Ltd., and reversed these related accruals.

Depreciation and Amortization Expense. Depreciation and amortization expense for the year ended December 1999 increased \$2.8 million, or 147%, to \$4.7 million from \$1.9 million for the twelve months ended December 31, 1998. This increase was due primarily to the addition of Cynara, which contributed \$3.0 million of depreciation and amortization expense for the year ended December 31, 1999.

Interest Expense. Interest expense for the year ended December 31, 1999 increased \$337,000, or 12%, to \$3.3 million from \$2.9 million for the twelve months ended December 31, 1998. This increase in interest expense was due primarily to an increase in debt as a result of the acquisition of Cynara in November 1998, partially offset by debt repayments throughout 1999.

Revaluation Gain on Postretirement Benefit Liability. A revaluation gain on postretirement benefit liability of \$1.0 million was recorded during the year ended December 31, 1999 due to a change in actuarial assumptions. No gain was recognized for the twelve months ended December 31, 1998.

Provision for Income Taxes. Income tax expense for the year ended December 31, 1999 increased \$942,000, or 155%, to \$1.5 million from \$606,000 for the twelve months ended December 31, 1998. This increase was due to the following: (1) higher state income tax as a greater percentage of revenues for 1999 as compared to 1998 were contributed by Total Engineering Services Testing, Inc. ("TEST"), whose manufacturing facilities are located in the state of Louisiana; (2) an increase in permanent book-to-tax differences due to the non-deductibility of goodwill amortization related to the Cynara acquisition made in November 1998; and (3) a one-time charge of approximately \$300,000 incurred as a deferred state rate adjustment which resulted when a former holding company was liquidated and the resulting assets were transferred to an entity with a lower effective tax rate for deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2001, we had cash and working capital of \$1.4 million and \$49.5 million. As of December 31, 2000, we had cash and working capital of \$1.0 million and \$49.1 million, as compared to \$1.7 million and \$25.3 million at December 31, 1999.

Net cash provided by (used in) operating activities for the years ended December 31, 2000 and 1999, and the nine months ended December 31, 1998 was (\$6.3) million, \$15.4 million and (\$1.5) million, respectively. The decrease in net cash provided by operating activities in 2000 was primarily due to an increase in trade accounts receivable and inventories associated with higher revenues and the new businesses acquired in 2000.

Net cash used in investing activities for the years ended December 31, 2000 and 1999, and the nine months ended December 31, 1998 was \$23.6 million, \$2.6 million and \$17.1 million, respectively. Our 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 that required \$8.1 million. These capital expenditures consisted primarily of renovations and expansions of our manufacturing plants, technological improvements to management information systems and acquisitions of and improvements to other equipment used in our business, including an upgrade to our 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 our revolving credit facilities. Our primary use of funds for the year ended December 31, 1999 and the nine months ended December 31, 1998 was capital expenditures of \$3.6 million in 1999 and the acquisition of Cynara in 1998, which required the use of \$15.5 million of cash.

Net cash provided by (used in) financing activities for the years ended December 31, 2000 and 1999, and the nine months ended December 31, 1998 was 29.7 million, (\$13.7) million and \$20.2 million, respectively. 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. Cash provided by financing activities for the nine months ended December 31, 1998 related to issuances of common stock, and borrowings of long-term debt to finance the Cynara and TEST acquisitions, respectively.

We maintain revolving credit and term loan facilities, as well as a working capital facility for export sales. The revolving credit facility provides for up to \$22.0 million of borrowings in the United States and up to \$10.0 million of borrowings in Canada, subject to borrowing base limitations. At December 31, 2000, we had borrowings outstanding under the revolving credit facility of \$15.0 million and had issued \$2.1 million in outstanding letters of credit under this facility. We amended the revolving credit agreement in October 2000 to extend the maturity date from November 2001 to January 2003, with no other material changes to the terms of the agreement. No borrowings were outstanding under the term loan facility at December 31, 2000. The revolving credit and term loan facility is secured by substantially all of our assets. We were in compliance with all debt covenants as of December 31, 2000. As of December 31, 2000, the weighted average interest rate of our borrowings under the term loan and revolving credit agreement was 8.58%.

On March 16, 2001, we entered into a new credit facility to finance the acquisition of Axsia. This credit facility consists 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.

Amounts borrowed under the term loan portion of this new facility currently bear interest at a rate of 7.23% per annum. Amounts borrowed under the revolving portion of this new 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.

Our new credit facility is guaranteed by all of our domestic subsidiaries and is secured by a first priority lien on all our inventory, accounts receivable and other material tangible and intangible assets. We have also pledged 65% of the voting stock of our active foreign subsidiaries.

Our export sales credit facility provides for aggregate borrowings of \$10.0 million, subject to borrowing base limitations, of which no borrowings were outstanding as of December 31, 2000. We had issued letters of credit totaling \$7.2 million 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 2003.

Our capital expenditures generally consist of renovations and expansions of our manufacturing plants, technological improvements to our management information systems and acquisitions of, and improvements to, other equipment we use in our business. For the year ended December 31, 2000, we had capital expenditures of \$8.1 million. We believe that our operating cash flow, supported by our borrowing capacity, will be adequate to fund operations throughout 2001. To the extent that we are successful in identifying additional acquisition opportunities during 2001, our ability to finance these acquisitions will be a critical element of the analysis of the opportunities.

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

Statement of Financial Accounting Standards ('SFAS') No. 133, Accounting for Derivative Instruments and Hedging Activities, was issued by the Financial Accounting Standards Board ("FASB") in June 1998. SFAS 133 standardizes the accounting for derivative instruments, including derivative instruments embedded in other contracts. Under the standard, entities are required to carry all derivative instruments in the statement of financial position at fair value. We adopted SFAS 133 on January 1, 2001, which did not have a material effect on our financial condition or results of operation because we had no derivative arrangements or other financial instruments for trading or speculative purposes at December 31, 2000.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our operations are conducted around the world in a number of different countries. Accordingly, future earnings are exposed to changes in foreign currency exchange rates when transactions are denominated in currencies other than our functional currencies. Our functional currencies are the primary currencies in which we conduct our business in various jurisdictions. The majority of our foreign currency transactions are denominated in the Canadian dollar, which is the functional currency of NATCO Canada. Because these contracts are denominated and settled in the functional currency, risks associated with currency fluctuations are minimized. We do not currently hedge against foreign currency translation risks, and we believe that foreign currency exchange risk is not significant to our operations.

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, 2000, we had no borrowings outstanding under the term loan portion of the revolving credit and term loan facility. At December 31, 2000, outstanding borrowings under our revolving credit agreement totaled \$15.0 million. The revolving credit

agreement was amended in October 2000 to extend the maturity date of these borrowings from November 2001 to January 2003. Borrowings under our revolving credit agreement bear interest at floating rates. As of December 31, 2000, the weighted average interest rate of our borrowings under this credit facility was 8.58%. There were no borrowings outstanding under the working capital facility for export sales at December 31, 2000.

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, 2000, a 100 basis point increase in interest rates under the borrowings would decrease our current net income and cash flow from operations by less than \$100,000. In the event of an adverse change in interest rates, we could take action to mitigate our exposure. Due, however, to the uncertainty of actions that could be taken and the possible effects, this calculation assumes no such actions. 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 the consolidated financial statements of the Company for the years ended December 31, 2000 and 1999, and the nine months ended December 31, 1998, as applicable, along with the Independent Auditors' report:

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, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the years ended December 31, 2000 and 1999 and for the nine months ended December 31, 1998. 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, 2000 and 1999 and the results of their operations and their cash flows for the years ended December 31, 2000 and 1999 and for the nine months ended December 31, 1998, 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 15, 2001

NATCO GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31, 2000	DECEMBER 31, 1999
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1,031	\$ 1,747
Trade accounts receivable, less allowance for doubtful accounts of \$1,142 and \$545 as of December 31, 2000 and 1999, respectively.....	53,807	33,720
Inventories.....	28,677	20,414
Notes receivable from director.....	--	1,890
Deferred income tax assets, net.....	1,745	1,478
Income tax receivable.....	178	837
Prepaid expenses and other current assets.....	1,042	1,144
	-----	-----
Total current assets.....	86,480	61,230
Property, plant and equipment, net.....	23,430	17,806
Goodwill.....	36,534	19,083
Deferred income tax assets, net.....	5,409	6,517
Other assets, net.....	1,273	2,194
	-----	-----
Total assets.....	\$153,126	\$106,830
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt.....	\$ --	\$ 4,643
Notes payable.....	1,005	--
Accounts payable.....	23,133	15,127
Accrued expenses and other.....	12,098	10,900
Customer advances.....	1,163	5,256
	-----	-----
Total current liabilities.....	37,399	35,926
Long-term debt, excluding current installments.....	14,959	26,537
Postretirement benefit liability.....	14,589	15,853
	-----	-----
Total liabilities.....	66,947	78,316
	-----	-----
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 14,977,354 and 8,787,520 shares as of December 31, 2000 and 1999, respectively.....	150	88
Class B Common stock, \$.01 par value. Authorized 5,000,000 shares; issued and outstanding 699,874 and 825,836 shares as of December 31, 2000 and 1999, respectively.....	7	8
Additional paid-in capital.....	96,601	43,273
Accumulated deficit.....	(506)	(8,177)
Treasury stock, 677,238 and 470,188 shares at cost as of December 31, 2000 and 1999, respectively.....	(6,316)	(4,550)
Accumulated other comprehensive loss.....	(1,864)	(886)
Note receivable from officer and stockholder.....	(1,893)	(1,242)
	-----	-----
Total stockholders' equity.....	86,179	28,514
	-----	-----
Commitments and contingencies		
Total liabilities and stockholders' equity.....	\$153,126	\$106,830
	=====	=====

See accompanying notes to consolidated financial statements.

NATCO GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE YEAR ENDED DECEMBER 31, 2000	FOR THE YEAR ENDED DECEMBER 31, 1999	FOR THE NINE MONTHS ENDED DECEMBER 31, 1998
	-----	-----	-----
Revenues.....	\$224,552	\$169,948	\$145,611
Cost of goods sold.....	162,757	127,609	115,521
	-----	-----	-----
Gross profit.....	61,795	42,339	30,090
Selling, general and administrative expense.....	39,456	32,437	24,530
Depreciation and amortization expense.....	5,111	4,681	1,473
Unusual charges.....	1,528	--	--
Interest expense.....	1,588	3,256	2,215
Interest cost on postretirement benefit liability.....	1,287	1,048	786
Revaluation loss (gain) on postretirement benefit liability.....	--	(1,016)	53
Interest income.....	(181)	(256)	(227)
	-----	-----	-----
Income from continuing operations before income taxes.....	13,006	2,189	1,260
Income tax provision.....	5,345	1,548	608
	-----	-----	-----
Income before cumulative effect of change in accounting principle.....	7,661	641	652
Cumulative effect of change in accounting principle (net of income taxes of \$7).....	10	--	--
	-----	-----	-----
Net income.....	\$ 7,671	\$ 641	\$ 652
	=====	=====	=====
Earnings per share--basic:			
Income before cumulative effect of change in accounting principle.....	\$ 0.52	\$ 0.07	\$ 0.08
Cumulative effect of change in accounting principle.....	--	--	--
	-----	-----	-----
Net income.....	\$ 0.52	\$ 0.07	\$ 0.08
	=====	=====	=====
Earnings per share--diluted:			
Income before cumulative effect of change in accounting principle.....	\$ 0.51	\$ 0.06	\$ 0.07
Cumulative effect of change in accounting principle.....	--	--	--
	-----	-----	-----
Net income.....	\$ 0.51	\$ 0.06	\$ 0.07
	=====	=====	=====
Basic weighted average number of shares of common stock outstanding.....	14,653	9,302	8,243
Diluted weighted average number of shares of common stock outstanding.....	15,158	9,953	8,942
Pro forma net income (retroactive of change in accounting principle):			
Net income.....		\$ 43	\$ 683
Earnings per share--basic.....		\$ --	\$.08
Earnings per share--diluted.....		\$ --	\$.08

See accompanying notes to consolidated financial statements.

NATCO GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK SHARES		COMMON STOCK CLASS		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE LOSS
	A	B	A	B				
Balances at March 31, 1998.....	6,666,668	--	\$ 67	--	\$20,272	\$(9,470)	\$(4,350)	\$(1,100)
Conversion of subordinated debt.....	1,479,258	--	14	--	8,172	--	--	--
Issue common stock for acquisition.....	--	500,000	--	5	5,245	--	--	--
Issue common stock.....	504,762	--	5	--	5,295	--	--	--
Employee stock compensation.....	--	--	--	--	23	--	--	--
Stock options repurchased.....	--	--	--	--	(119)	--	--	--
Call option on common stock.....	--	--	--	--	--	--	(200)	--
Comprehensive income								
Net income.....	--	--	--	--	--	652	--	--
Foreign currency translation adjustment.....	--	--	--	--	--	--	--	(321)
Total comprehensive income.....	--	--	--	--	--	--	--	--
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 receivable from director.....	(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								
Net income.....	--	--	--	--	--	7,671	--	--
Foreign currency translation adjustment.....	--	--	--	--	--	--	--	(978)
Total comprehensive income.....	--	--	--	--	--	--	--	--
Balances at December 31, 2000...	14,977,354	699,874	\$150	\$ 7	\$96,601	\$(506)	\$(6,316)	\$(1,864)

	NOTE RECEIVABLE FROM STOCKHOLDER	TOTAL STOCKHOLDERS EQUITY (DEFICIT)
Balances at March 31, 1998.....	--	5,419
Conversion of subordinated debt.....	--	8,186
Issue common stock for acquisition.....	--	5,250
Issue common stock.....	--	5,300
Employee stock compensation.....	--	23
Stock options repurchased.....	--	(119)
Call option on common stock.....	--	(200)
Comprehensive income		
Net income.....	--	652
Foreign currency translation adjustment.....	--	(321)

Total comprehensive income.....	--	331
	-----	-----
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		
receivable from director.....	--	(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		
Net income.....	--	7,671
Foreign currency translation		
adjustment.....	--	(978)

Total comprehensive income.....	--	6,693
	-----	-----
Balances at December 31, 2000...	(1,893)	86,179
	=====	=====

See accompanying notes to consolidated financial statements.

NATCO GROUP INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31, 2000	FOR THE YEAR ENDED DECEMBER 31, 1999	FOR THE NINE MONTHS ENDED DECEMBER 31, 1998
	-----	-----	-----
Cash flows from operating activities:			
Net income.....	\$ 7,671	\$ 641	\$ 652
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Deferred income tax provision (benefit).....	1,611	1,107	(16)
Depreciation and amortization expense.....	5,111	4,681	1,473
Noncash interest income.....	(85)	(211)	--
Interest cost on postretirement benefit liability....	1,287	1,048	786
Gain on sale of property, plant and equipment.....	(110)	(560)	(49)
Loss (gain) on revaluation of postretirement benefit liability.....	--	(1,016)	53
Cumulative effect of change in accounting principle.....	(10)	--	--
Other, net.....	(77)	(60)	366
Change in assets and liabilities:			
(Increase) decrease in restricted cash.....	--	883	(334)
(Increase) decrease in trade accounts receivable....	(14,230)	9,296	2,853
(Increase) decrease in inventories.....	(6,647)	2,858	570
(Increase) decrease in prepaid and other current assets.....	(482)	391	874
Increase (decrease) in other income taxes.....	633	234	(1,642)
Decrease in long-term assets.....	418	--	--
Increase (decrease) in accounts payable.....	4,221	(3,707)	(5,834)
Decrease in accrued expenses and other.....	(742)	(2,609)	(1,894)
Increase (decrease) in customer advances.....	(4,819)	2,415	692
	-----	-----	-----
Net cash provided by (used in) operating Activities.....	(6,250)	15,391	(1,450)
	-----	-----	-----
Cash flows from investing activities:			
Capital expenditures for property, plant and equipment.....	(8,137)	(3,593)	(1,636)
Proceeds from sales of property, plant and equipment....	575	977	66
Acquisitions, net of working capital acquired.....	(17,126)	--	(15,499)
Repayment of related party note receivable.....	1,059	--	--
	-----	-----	-----
Net cash used in investing activities.....	(23,629)	(2,616)	(17,069)
	-----	-----	-----
Cash flows from financing activities:			
Net repayments under revolving credit agreements.....	--	(1,585)	(2,562)
Change in bank overdrafts.....	2,864	(1,878)	(156)
Net borrowings.....	--	--	39,477
Net borrowing (repayments) under long-term revolving credit facilities.....	8,932	(3,852)	--
Repayments of long-term debt.....	(27,858)	(5,357)	(20,631)
Issuance of common stock, net.....	46,738	--	5,300
Issuance of common stock for benefit plans.....	156	--	--
Payments on postretirement benefit liability.....	(1,772)	(524)	(446)
Receipt as partial payment of the net present value of postretirement benefit liability of affiliate.....	600	475	--
Repurchase of treasury shares.....	(243)	--	--
Other, principally bank and IPO fees.....	285	(980)	(803)
	-----	-----	-----
Net cash provided by (used in) financing activities.....	29,702	(13,701)	20,179
	-----	-----	-----
Effect of exchange rate changes on cash and cash equivalents.....	(539)	293	(221)
	-----	-----	-----
Increase (decrease) in cash and cash equivalents.....	(716)	(633)	1,439
Cash and cash equivalents at beginning of period.....	1,747	2,380	941
	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 1,031	\$ 1,747	\$ 2,380
	=====	=====	=====
Cash payments for:			
Interest.....	\$ 1,061	\$ 3,285	\$ 2,045
Income taxes.....	\$ 1,903	\$ 751	\$ 2,093
Significant non-cash investing and financing activities:			
Issuance of common stock for acquisition.....	\$ 4,077	\$ 3,422	\$ 5,250
Conversion of subordinated debt.....	--	--	\$ 8,172
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.

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. 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, 2000 and 1999, and the nine months ended December 31, 1998.

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 20, 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.

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

Fiscal Year Change. Effective April 1, 1998, the Company changed its fiscal year end from March 31 to December 31.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. Significant intercompany 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. However, for the year ended December 31, 2000, one customer, Carigali-Triton Operating Company, SDN BHD ("CTOC") through its general contractor, Samsung, provided revenues of \$45.9 million or approximately 20% of total revenues. No other customer provided more than 10% of revenues for the year ended December 31, 2000. No customer provided more than 10% of revenues for the year ended December 31, 1999 or the nine months ended December 31, 1998. See Note 22, 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.

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, 2000 or December 31, 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, 2000. Amortization expense for the years ended December 31, 2000 and 1999, and the nine months ended December 31, 1998 was \$2.0 million, \$739,000 and \$167,000, respectively. Accumulated amortization at December 31, 2000 and December 31, 1999 was \$2.8 million and \$1.1 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, 2000 and 1999, and for the nine months ended December 31, 1998 was \$554,000, \$570,000, and \$244,000, 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 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 \$1.8 million, \$1.9 million and

\$1.0 million for the years ended December 31, 2000 and 1999, and for the nine months ended December 31, 1998, 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, 2000 and December 31, 1999, the Company had \$931,000 and \$1.8 million, 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.

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 36,000 shares for the year ended December 31, 2000. There were no anti-dilutive stock options for the year ended December 31, 1999 and the nine months ended December 31, 1998.

The following table presents earnings per common share amounts computed using SFAS 128:

PERIOD ENDED -----	NET INCOME -----	SHARES -----	PER SHARE AMOUNTS -----
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)		
Nine months ended December 31, 1998			
Basic EPS.....	\$ 652	8,243	\$0.08
Effect of dilutive securities:			
Options.....	--	699	(0.01)
	-----	-----	-----
Diluted EPS.....	\$ 652	8,942	\$0.07
	=====	=====	=====
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
	=====	=====	=====

(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. ("Capricorn"). 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 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 Class A common stock from the director for \$1.5 million, which reduced the note due from the director by this 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 September 1999 and June 2000, 325,836 Class B shares and 418,145 Class B shares, respectively, were issued to the former shareholders of The Cynara Company ("Cynara"), in connection with the achievement of certain performance criteria defined in the November 1998 purchase agreement. Goodwill was increased \$3.4 million in 1999 and \$4.1 million in 2000, 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 November 2000, the Company reacquired 34,000 shares of its Class A common stock under this repurchase plan for \$242,000, an average cost of \$7 per share. The cost to reacquire these shares has been recorded as treasury stock at December 31, 2000.

(4) ACQUISITIONS

On November 20, 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 and 418,145 Class B shares in September 1999 and June 2000, 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, 2000 and 1999 was \$17.6 million and \$13.5 million, respectively. Accumulated amortization was \$1.4 million and \$577,000 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 19, 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 \$5.7 million and \$277,000, respectively, at December 31, 2000.

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 accrues 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 \$169,000, respectively, at December 31, 2000.

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 accounting, and results of operations for ESI have been included in NATCO's consolidated financial statements since the date of acquisition. The final purchase price adjustment had not been determined as of December 31, 2000. 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 \$212,000, respectively, at December 31, 2000.

(5) UNUSUAL CHARGES

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 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, 2000, was \$616,000. 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, 2000	DECEMBER 31, 1999
	-----	-----
	(IN THOUSANDS)	
Finished goods.....	\$ 7,641	\$ 6,828
Work-in-process.....	10,403	4,745
Raw materials and supplies.....	11,203	9,106
	-----	-----
Inventories at FIFO.....	29,247	20,679
Excess of FIFO over LIFO cost.....	(570)	(265)
	-----	-----
	\$28,677	\$20,414
	=====	=====

At December 31, 2000 and December 31, 1999, inventories valued using the LIFO method and included above amounted to \$22.3 million and \$14.6 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 year ended December 31, 2000 and the nine months ended December 31, 1998.

(7) COST AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Cost and estimated earnings on uncompleted contracts were as follows:

	DECEMBER 31, 2000	DECEMBER 31, 1999
	-----	-----
	(IN THOUSANDS)	
Cost incurred on uncompleted contracts.....	\$67,477	\$47,533
Estimated earnings.....	34,475	15,625
	-----	-----
	101,952	63,158
Less billings to date.....	91,301	64,656
	-----	-----
	\$10,651	\$(1,498)
	=====	=====
Included in accompanying balance sheets under the following captions:		
Trade accounts receivable.....	\$10,651	\$ 866
Customer advances.....	--	(2,364)
	-----	-----
	\$10,651	\$(1,498)
	=====	=====

(8) PROPERTY, PLANT AND EQUIPMENT, NET

The components of property, plant and equipment, were as follows:

	ESTIMATED USEFUL LIVES (YEARS)	DECEMBER 31, 2000	DECEMBER 31, 1999
	-----	-----	-----
		(IN THOUSANDS)	
Land and improvements.....	--	\$ 1,789	\$ 1,666
Buildings and improvements.....	20 to 40	10,458	6,995
Machinery and equipment.....	3 to 12	22,432	19,004
Office furniture and equipment.....	3 to 12	4,331	3,409
Less accumulated depreciation.....		(15,580)	(13,268)
		-----	-----
		\$ 23,430	\$ 17,806
		=====	=====

Depreciation expense was \$3.1 million, \$3.7 million and \$1.3 million, respectively, for the years ended December 31, 2000 and 1999, and for the nine months ended December 31, 1998. 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 \$5.1 million and \$3.0 million, and the related accumulated depreciation was \$3.4 million and \$2.2 million, at December 31, 2000 and 1999, respectively. Lease and rental income of \$581,000, \$450,000 and \$536,000 for the years ended December 31, 2000 and 1999, and the nine months ended December 31, 1998, respectively, were included in revenues.

(9) OTHER ASSETS, NET

Other assets consisted of the following:

	DECEMBER 31, 2000	DECEMBER 31, 1999
	-----	-----
	(IN THOUSANDS)	
Deferred financing costs.....	\$ 433	\$ 656
Deferred costs of public offering.....	--	572
Covenants not to compete.....	273	542
Prepaid pension asset.....	187	206
Other.....	380	218
	-----	-----
	\$1,273	\$2,194
	=====	=====

Deferred financing costs are amortized over the life of the related debt instruments (three and five years). Accumulated amortization was \$552,000 and \$294,000 at December 31, 2000 and 1999, respectively.

(10) ACCRUED EXPENSES AND OTHER

Accrued expense and other consisted of the following:

	DECEMBER 31, 2000	DECEMBER 31, 1999
	-----	-----
	(IN THOUSANDS)	
Accrued compensation and benefits.....	\$ 7,683	\$ 7,509
Accrued insurance reserves.....	1,012	502
Warranty and product reserves.....	900	1,251
Taxes.....	700	425
Other.....	1,803	1,213
	-----	-----
Total.....	\$12,098	\$10,900
	=====	=====

During the nine months ended December 31, 1998, the Company revised its previous estimate of accrued insurance reserves resulting in a reduction of insurance expense of \$1.2 million.

(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 accrues interest at 15% per annum. The note is payable, along with accrued interest, on January 24, 2001.

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. This note is payable, along with accrued interest, on February 8, 2001.

(12) LONG-TERM DEBT

The consolidated borrowings of the Company are as follows:

	DECEMBER 31, 2000	DECEMBER 31, 1999
	-----	-----
	(IN THOUSANDS)	
BANK DEBT		
Term loan with variable interest rate (8.98% at December 31, 1999) and quarterly payments of principal (\$1,161) and interest, due November 30, 2003.....	--	27,858
Revolving credit bank loans with variable interest rate (8.58% and 8.04% at December 31, 2000 and 1999, respectively) quarterly payment of interest, due January 1, 2003.....	14,959	3,322
	-----	-----
Total.....	14,959	31,180
Less current installments.....	--	(4,643)
	-----	-----
Long-term debt.....	\$14,959	\$26,537
	=====	=====

For the next five years ended December 31, the aggregate future maturities of long-term debt of \$15.0 million are due in 2003. No annual future maturities are due in 2001, 2002, 2004 or 2005.

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 is 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. NATCO had letters of credit outstanding under the revolving credit facility totaling \$2.1 million at December 31, 2000. These letters of credit constitute contract performance and warranty collateral and expire at various dates through September 2002.

The Company maintains a working capital facility for export sales that provides for aggregate borrowings of \$10.0 million, subject to borrowing base limitations, of which no borrowings were outstanding as of December 31, 2000. The Company had issued letters of credit under this facility that totaled \$7.2 million as of December 31, 2000. The export sales credit facility is secured by specific project inventory and receivables, and is partially guaranteed by the EXIM Bank. The export sales credit facility loans mature in July 2003.

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 \$2.0 million for 1999, and \$2.2 million for any year thereafter, plus 50% of excess cash flow beginning in 2001.

(13) INCOME TAXES

Income tax expense (benefit) consisted of the following components:

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	NINE MONTHS ENDED DECEMBER 31, 1998
	(IN THOUSANDS)		
Current:			
Federal.....	\$2,569	\$ --	\$ --
State.....	206	240	129
Foreign.....	959	201	495
	-----	-----	-----
	3,734	441	624
	-----	-----	-----
Deferred:			
Federal.....	1,279	912	77
State.....	167	104	36
Foreign.....	165	91	(129)
	-----	-----	-----
	1,611	1,107	(16)
	-----	-----	-----
	\$5,345	\$1,548	\$ 608
	=====	=====	=====

Temporary differences related to the following items that give rise to deferred tax assets and liabilities were as follows:

	DECEMBER 31, 2000	DECEMBER 31, 1999
	(IN THOUSANDS)	
Deferred tax assets:		
Postretirement benefit liability.....	\$5,324	\$5,786
Accrued liabilities.....	2,585	2,437
Net operating loss carry forward.....	559	699
Accounts receivable.....	254	197
Property, plant and equipment.....	64	15
	-----	-----
Total deferred tax assets.....	\$8,786	\$9,134
	-----	-----
Deferred tax liabilities:		
Inventory.....	\$ 871	\$ 934
Property, plant and equipment.....	692	118
Pension assets.....	69	88
	-----	-----
Total deferred tax liabilities.....	1,632	1,140
	-----	-----
Net deferred tax assets.....	\$7,154	\$7,994
	=====	=====

At December 31, 2000 and 1999, the Company did not record a valuation allowance related to its deferred tax assets 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, 2000, the company had net operating loss carry-forwards for federal income tax purposes of \$1.5 million that were available to offset future federal income tax, if any, through 2020.

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 DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	NINE MONTHS ENDED DECEMBER 31, 1998
	(IN THOUSANDS)		
Income tax expense computed at statutory rate...	\$4,422	\$ 744	\$428
State income tax expense net of federal income tax effect.....	303	262	87
Foreign income tax expense (benefit) net of federal income tax effect.....	75	(204)	31
Foreign losses for which no tax benefit is currently available.....	137	91	49
Tax benefit of foreign losses not previously claimed.....	--	(39)	(79)
Permanent differences, primarily meals and entertainment and amortization.....	641	390	122
Deferred state rate adjustment.....	--	235	--
Research and development tax credit.....	(150)	--	--
Other.....	(83)	69	(30)
	-----	-----	-----
	\$5,345	\$1,548	\$608
	=====	=====	=====

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. At December 31, 2000, 1999 and 1998, such amounts were not significant.

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 employment of Nathaniel A. Gregory as 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, 2000 and 1999, these options related to an aggregate of 264,363 shares and 880,104 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. Compensation expense has been adjusted in connection with the plan for the nine months ended December 31, 1998 to reflect expense of \$23,000.

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. Furthermore, additional stock options were granted at that time. The exercise price of these options was determined as the fair market value of the common stock at the date of issue. Accordingly, no compensation expense was recorded associated with these 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 7.5 years. At December 31, 2000, an aggregate of 764,204 stock options remained outstanding under this plan.

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, 2000, 1999 and 1998, options relating to an aggregate of 743,953 shares, 455,085 shares and 464,672 shares, respectively, were outstanding under these plans.

2000 Employee Stock Option 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. No options were granted 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, 2000 and 1999 and the nine months ended December 31, 1998:

	STOCK OPTIONS SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Balance at March 31, 1998.....	1,555,115	\$2.75
Granted.....	262,751	\$8.81
Exercised.....	(38,333)	\$8.81
Canceled.....	(19,752)	\$6.71
	-----	-----
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
Price range \$1.47 -- \$2.22 (weighted average remaining contractual life of 1.20 years).....	286,504	\$1.60
Price \$5.03 (weighted average remaining contractual life of 5.09 years).....	377,700	\$5.03
Price range \$8.00 -- \$11.69 (weighted average remaining contractual life of 8.39 years).....	843,953	\$9.41
	-----	-----
	STOCK OPTIONS	WEIGHTED
EXERCISABLE OPTIONS	SHARES	AVERAGE
-----	-----	-----
December 31, 1998.....	1,379,638	\$2.69
December 31, 1999.....	1,382,858	\$3.24
December 31, 2000.....	840,969	\$4.95

Pro forma information regarding net income and earnings per share is required by SFAS 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 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 28, 2001. Volatility was calculated at 59% for the year ended December 31, 2000, but was stepped-down by 10% per year for the next five years to reflect expected stabilization. The

following table summarizes other assumptions used to determine pro forma compensation expense under SFAS 123 as of December 31, 2000:

DATE OF GRANT	NUMBER OF OPTIONS	EXPECTED OPTION LIFE	RISK-FREE RATE
Pre-IPO	952,038	7 to 7.5 years	5.97% - 6.97%
Pre-IPO	374,619	5 years	5.29% - 6.31%
Post-IPO	60,000	7 years	6.40% - 6.65%
Post-IPO	121,500	3.5 years	5.85% - 6.40%

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, 2000.

For the year ended December 31, 1999 and the nine months ended December 31, 1998, the Company accounted for its employee stock options under the minimum value method permitted by SFAS 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, 2000 and 1999, and the nine months ended December 31, 1998 were as follows:

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	NINE MONTHS ENDED DECEMBER 31, 1998
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net earnings--as reported.....	\$7,671	\$ 641	\$ 652
Net earnings--pro forma.....	\$7,106	\$ 276	\$ 495
Diluted earnings per share--as reported....	\$ 0.51	\$0.06	\$0.07
Diluted earnings per share--pro forma.....	\$ 0.47	\$0.03	\$0.06

Because SFAS 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 ("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 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. In prior years, gains and losses that resulted from experience or assumption changes were recorded as a charge to current income in the period of the change. In order to reduce volatility of earnings associated with these gains or losses and as permitted under SFAS 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. A gain of \$10,000, net of tax, was recorded in the consolidated statement of income for the year ended 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 and the nine months ended December 31, 1998 was a reduction of \$598,000 and an increase of \$31,000, respectively. See Note 16, Pension and Other Postretirement Benefits.

(16) PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company has adopted SFAS 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 at the time the Company was acquired from C-E.

In December 1999, the Company entered into an agreement with Tyler and Capricorn I, 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.

The following table sets forth the plan's benefit obligation, fair value of plan assets, and funded status at December 31, 2000 and 1999.

	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	DECEMBER 31, 2000	DECEMBER 31, 1999	DECEMBER 31, 2000	DECEMBER 31, 1999
	(IN THOUSANDS)			
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of the period.....	\$604	\$527	\$ 15,853	\$ 15,587
Cumulative effect of change in accounting principle.....	--	--	(17)	--
Service cost.....	42	36	--	--
Interest cost.....	47	42	1,287	1,048
Participant contributions.....	--	--	127	121
Actuarial (gain) loss.....	(33)	(4)	--	(1,016)
Foreign currency exchange rate differences.....	(23)	31	--	--
Contribution from former plan holder.....	--	--	--	410
Liability assumed from related party.....	--	--	--	1,000
Benefit payments.....	(27)	(28)	(2,661)	(1,297)
Benefit obligation at end of period.....	==== \$610	==== \$604	===== \$ 14,589	===== \$ 15,853
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets at beginning of period.....	\$674	\$617	\$ --	\$ --
Actual return on plan assets....	48	46	--	--
Foreign currency exchange rate differences.....	37	39	--	--
Employer contributions.....	--	--	2,534	766
Participant contributions.....	--	--	127	121
Contribution from former plan holder.....	--	--	--	410
Benefit payments.....	(27)	(28)	(2,661)	(1,297)
Fair value of plan assets at end of period.....	==== 732	==== 674	===== --	===== --
Funded status.....	122	70	(16,064)	(15,853)
Unrecognized loss.....	--	--	1,475	--
Unrecognized experience gain....	89	151	--	--
Prepaid (accrued) benefit cost.....	==== \$211	==== \$221	===== \$ (14,589)	===== \$ (15,853)

	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	DECEMBER 31, 2000	DECEMBER 31, 1999	DECEMBER 31, 2000	DECEMBER 31, 1999
	(IN THOUSANDS, EXCEPT PERCENTAGES)			
WEIGHTED AVERAGE ASSUMPTIONS				
Discount rate.....	7.0%	7.5%	7.5%	8.0%
Expected return on plan assets.....	7.0%	7.5%	N/A	N/A
Rate of compensation increase...	N/A	N/A	N/A	N/A
Health care trend rates.....	--	--	4.5%-6.75%	4.5%-7.25%
COMPONENTS OF NET PERIODIC BENEFIT COST:				
Service cost.....	\$ 42	\$ 36	\$ --	\$ --
Interest cost.....	47	42	1,287	1,048
Recognized gains.....	(38)	(41)	--	--
Net periodic benefit cost.....	\$ 51	\$ 37	\$ 1,287	\$ 1,048
	====	====	=====	=====
			1% Increase	1% Increase
Effect on interest cost component.....			\$ 89	\$ 89
Effect on the health care component of the accumulated postretirement benefit obligation.....			\$ 1,261	\$ 1,116

Deferred Compensation Plan. TEST adopted a deferred compensation plan (the "TEST Plan") effective July 1, 1995 to provide incentives and rewards to certain individuals. Awards are payable in five equal annual installments plus any earnings, which have been allocated to a participant's account. The Company has elected not to make any additional awards for the plan year beginning January 1, 1998. As of December 31, 2000 and December 31, 1999, the total amounts owed under the TEST Plan were \$244,000 and \$303,000 respectively. The balance presently accrues interest at the prime rate plus 1%.

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 \$1.4 million, \$1.6 million and \$1.9 million for the years ended December 31, 2000 and 1999, and the nine months ended December 31, 1998, 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 2005. Future minimum lease payments required under operating leases that have remaining non-cancelable lease terms in excess of one year at December 31, 2000, were as follows: 2001 -- \$2.9 million, 2002 -- \$2.1 million, 2003 -- \$444,000, 2004 -- \$138,000, and 2005 -- \$52,000. Total expense for operating leases for the years ended December 31, 2000 and 1999, and for the nine months ended December 31, 1998 was \$4.4 million, \$3.5 million and \$2.3 million, respectively.

For a discussion of lease and rental income, see Note 8, Property, Plant and Equipment, net.

(18) RELATED PARTIES

The Company paid a management fee to Capricorn Management for advisory information, research and 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. Fees paid to Capricorn Management totaled \$75,000, \$75,000 and \$56,000, for the years ended December 31, 2000 and 1999, and the nine months ended December 31, 1998, respectively.

Employees of Capricorn Management have participated in various NATCO employee benefit plans and the Company has from time to time received billings from vendors for services provided to Capricorn Management personnel acting for the benefit of the Company. Capricorn Management reimburses the Company for the foregoing expenses. At December 31, 1999, Capricorn Management owed the Company \$5,000 for these expenses. No receivable from Capricorn Management existed at December 31, 2000.

For the year ended December 31, 1999 and the nine months ended December 31, 1998, PTH paid \$84,000 and \$49,000, respectively to the Company for tax consulting and analysis services. No receivable from PTH existed at December 31, 2000, as the tax consulting arrangement terminated during January 2000.

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. 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 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.

Pursuant to an employment agreement, the Company lent an 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 accrues 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 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, 2000, the balance of the receivable and accrued interest due from this officer under both loan arrangements was \$1.9 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 I 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

In June 1997, the Company, in connection with a financing effected to provide funds for the acquisition of TEST and other corporate purposes, distributed all of the outstanding stock of PTH then owned by the Company to its then sole stockholder, Capricorn. In connection with the distribution, the Company received an opinion of counsel to the effect that the distribution would be tax-free to both the Company and Capricorn. Tax-free treatment of the distribution depends, in part, upon the underlying facts and circumstances at the time of the distribution. There can be no assurance that the Internal Revenue Service will agree with the interpretation of the Company and its counsel of such facts and circumstances. If the Internal Revenue Service were to challenge the tax-free treatment of the distribution and such challenge were ultimately to prevail, the Company would be treated as recognizing gain with respect to the distribution in an amount equal to the excess of the fair market value of the PTH stock at the time of the distribution over its tax basis to the

Company. Such treatment could have a material adverse effect on the Company's results of operations and financial condition.

The Porta-Test purchase agreement, executed in January 2000, contains a provision to calculate a payment to certain former stockholders of Porta-Test, 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. The potential payment will be calculated each year on the anniversary date of the acquisition, extending for a three-year period ended January 24, 2003. As of December 31, 2000, the Company has accrued approximately \$253,000 related to its obligation under this arrangement with a corresponding increase in goodwill. Any future liabilities incurred under this arrangement will also result in an increase in goodwill.

(20) CHANGE IN ACCOUNTING ESTIMATE

During April 2000, the Company extended the service life of certain assets based upon operational factors. 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, asbestos related personal injury 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 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 eight business units have separate management teams and infrastructures that offer different products and services. The business units have been aggregated into four reportable segments (described below) since the long-term financial performance of these reportable segments is affected by similar economic conditions.

Traditional Production Equipment and Services: U.S. Sales & Service is the sole business unit reported in this segment. This unit designs, engineers, manufactures, and provides start-up services for production equipment, which is generally less complex than that provided by engineered systems. This segment also provides replacement parts, field and shop servicing of equipment, and used equipment refurbishing. The principal market for this segment is the U.S. onshore and offshore market, but also serves the international market. Customers include major multi-national, independent and national or state-owned companies.

Engineered Systems: This segment consists of five business units; U.S. Engineered Systems, NTC Technical Services, NATCO Japan, NATCO Venezuela and NATCO London, 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, Latin America, Europe, 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, Latin 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.

NATCO Canada: This segment consists of our subsidiary in Canada. NATCO Canada provides design, engineering, manufacturing and start-up services for engineered process systems. It also provides replacement parts, field and shop servicing of equipment and used equipment refurbishing. NATCO Canada has also done selective manufacturing for the engineered systems segment in the past. The principal markets for this segment are the oil and gas producing regions of Canada. Customers include major multi-national and independent companies.

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 The Cynara Company ("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.

	TRADITIONAL PRODUCTION EQUIPMENT & SERVICES	ENGINEERED SYSTEMS	AUTOMATION & CONTROL SYSTEMS	NATCO CANADA	CORPORATE & ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS)					
DECEMBER 31, 2000*						
Revenues from unaffiliated customers.....	\$82,105	\$67,535	\$38,646	\$36,266	--	\$224,552
Revenues from affiliates.....	1,323	286	4,115	4,051	\$(9,775)	--
Segment profit (loss)...	4,916	13,978	4,184	2,716	(4,983)	20,811
Total assets.....	67,829	34,811	20,512	20,792	9,182	153,126
Capital expenditures....	1,377	5,316	246	946	252	8,137
Depreciation and amortization.....	2,265	1,460	526	700	160	5,111
DECEMBER 31, 1999*						
Revenues from unaffiliated customers.....	\$61,419	\$50,792	\$39,497	\$18,240	--	\$169,948
Revenues from affiliates.....	1,169	1,726	2,346	1,517	\$(6,758)	--
Segment profit (loss)...	3,412	5,357	4,577	48	(3,492)	9,902
Total assets.....	33,122	26,128	18,438	15,306	13,836	106,830
Capital expenditures....	2,731	152	295	437	(22)	3,593
Depreciation and amortization.....	2,594	1,095	545	320	127	4,681
DECEMBER 31, 1998**						
Revenues from unaffiliated customers.....	\$52,174	\$33,186	\$34,458	\$25,793	--	\$145,611
Revenues from affiliates.....	386	1,317	1,095	2,484	\$(5,282)	--
Segment profit (loss)...	3,220	1,311	3,944	2,425	(3,420)	7,480
Total assets.....	37,146	27,419	24,137	14,052	15,658	118,412
Capital expenditures....	391	191	169	871	14	1,636
Depreciation and amortization.....	512	219	445	187	110	1,473

* Year then ended.

** Nine months then ended.

The Company's geographic data for continuing operations for the years ended December 31, 2000 and 1999, and the nine months ended December 31, 1998 were as follows:

	UNITED STATES	CANADA	UNITED KINGDOM	OTHER	CORPORATE & ELIMINATIONS	CONSOLIDATED
	(IN THOUSANDS)					
DECEMBER 31, 2000						
Revenues from unaffiliated customers.....	\$177,878	\$36,266	\$1,631	\$ 8,777	\$ --	\$224,552
Revenues from affiliates.....	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
Revenues from affiliates.....	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	\$(4,047)	\$ 9,903
Total assets.....	\$ 86,173	\$15,306	\$1,520	\$ 3,831	\$ --	\$106,830
DECEMBER 31, 1998						
Revenues from unaffiliated customers.....	\$113,396	\$25,793	\$2,152	\$ 4,270	\$ --	\$145,611
Revenues from affiliates.....	2,494	2,484	78	226	(5,282)	--
Revenues.....	\$115,890	\$28,277	\$2,230	\$ 4,496	\$(5,282)	\$145,611
Operating income (loss).....	\$ 3,328	\$ 2,173	\$ (505)	\$ 959	\$(2,707)	\$ 3,248
Total assets.....	\$ 98,562	\$14,052	\$1,750	\$ 4,048	\$ --	\$118,412

Corporate expenses consist of corporate overhead and research and development expenses.

(23) QUARTERLY DATA

The following tables summarize unaudited quarterly information for the years ended December 31, 2000 and 1999:

	2000			
	FOR THE QUARTER ENDED			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
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(1).....	\$ 0.01	\$ 0.17	\$ 0.18	\$ 0.16
Fully diluted earnings per share(1)....	\$ 0.01	\$ 0.16	\$ 0.18	\$ 0.16
	1999			
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
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

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.

(25) SUBSEQUENT EVENTS

On March 16, 2001, the Company entered into a new credit facility with a group of banks led by The Chase Manhattan Bank. This credit facility consists 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.

On March 19, 2001, NATCO acquired all the outstanding capital stock of Axsia Group Limited, a privately held process and design company based in the United Kingdom, for approximately \$45.8 million in cash. This acquisition was funded through borrowings under our new revolving credit facilities and was recorded using the purchase method of accounting.

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

Reference is made to the information responsive to the Items comprising this Part III that is contained in the Company's definitive proxy statement for its 2001 Annual Meeting of Stockholders, which is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Reference is made to the information responsive to the Items comprising this Part III that is contained in the Company's definitive proxy statement for its 2001 Annual Meeting of Stockholders, which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Reference is made to the information responsive to the Items comprising this Part III that is contained in the Company's definitive proxy statement for its 2001 Annual Meeting of Stockholders, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reference is made to the information responsive to the Items comprising this Part III that is contained in the Company's definitive proxy statement for its 2001 Annual Meeting of Stockholders, which is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS OF FORM 8-K

(a) Index to Financial Statements, Financial Statement Schedules and Exhibits

	PAGE

(1) Financial Statements	
Independent Auditors' Report.....	31
Consolidated Balance Sheets.....	32
Consolidated Statements of Operations.....	33
Consolidated Statements of Stockholders'	
Equity and Comprehensive Income.....	34
Consolidated Statements of Cash Flows.....	35
Notes to Consolidated Financial Statements.....	36
(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.....	61
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. The Company filed a Form 8-K on November 7, 2000, to announce board of directors resolutions to adopt a stock repurchase plan and to provide a full recourse loan to an executive officer to facilitate the exercise of certain outstanding stock options.

(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).
2.3*	-- Stock Purchase Agreement dated as of January 25, 2001 but effective March 16, 2001 between the Company and Axsia Group Limited.
2.4*	-- Amendment to Stock Purchase Agreement dated as of March 16, 2001 between the Company and Axsia Group Limited.
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).

EXHIBIT NUMBER	DESCRIPTION
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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 10-Q for the period ended March 31, 2000).
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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).

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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).
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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).
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18.1*	-- Letter Regarding Change in Accounting Principle.
21.1*	-- List of Subsidiaries.

 * Included herewith.

** Management contracts or compensatory plans or arrangements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange 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 29th day of March 2001.

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 Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated, on March 29th, 2001.

SIGNATURE -----	TITLE -----
<p>/s/ NATHANIEL A. GREGORY ----- Nathaniel A. Gregory</p>	<p>Chairman of the Board and Chief Executive Officer (Principal Executive Officer)</p>
<p>/s/ J. MICHAEL MAYER ----- J. Michael Mayer</p>	<p>Senior Vice President and Chief Financial Officer (Principal Financial Officer)</p>
<p>/s/ RYAN S. LILES ----- Ryan S. Liles</p>	<p>Vice President and Controller (Principal Accounting Officer)</p>
<p>/s/ HERBERT S. WINOKUR, JR. ----- Herbert S. Winokur, Jr.</p>	<p>Director</p>
<p>/s/ JOHN U. CLARKE ----- John U. Clarke</p>	<p>Director</p>
<p>/s/ PATRICK M. MCCARTHY ----- Patrick M. McCarthy</p>	<p>Director</p>
<p>/s/ HOWARD I. BULL ----- Howard I. Bull</p>	<p>Director</p>
<p>/s/ KEITH K. ALLAN ----- Keith K. Allan</p>	<p>Director</p>
<p>/s/ GEORGE K. HICKOX, JR. ----- George K. Hickox, Jr.</p>	<p>Director</p>

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18.1*	-- Letter Regarding Change in Accounting Principle.
21.1*	-- List of Subsidiaries.

* Included herewith.

** Management contracts or compensatory plans or arrangements.

</TEXT>
</DOCUMENT>

DATED

25TH JANUARY 2001

1. THE SHAREHOLDERS SET FORTH ON SCHEDULE 1
2. THE OPTIONHOLDERS SET FORTH ON SCHEDULE 1
3. NATCO GROUP INC.

SALE AND PURCHASE AGREEMENT

in relation to the entire issued share capital of

AXSIA GROUP LIMITED

Vinson & Elkins L.L.P.
Regis House
45 King William Street
London EC4R 9AN

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THIS AGREEMENT is dated the 25th day of January 2001 and made BETWEEN:

1. Each of the Shareholders set forth in Part I of Schedule 1 (The Vendors and the Company) (a "Shareholder" and, collectively, the "Shareholders");
2. Each of the Optionholders set forth in Part III of Schedule 1 (The Vendors and the Company) (an "Optionholder" and, collectively, the "Optionholders"); and
3. NATCO Group Inc., a Delaware corporation (the "Purchaser").

WHEREAS:

The Vendors wish to sell and the Purchaser wishes to acquire the entire issued share capital of Axsia Group Limited on and subject to the terms of this Agreement.

NOW IT IS HEREBY AGREED as follows:

1. INTERPRETATION

1.1 Definitions

In this Agreement where the context admits:

"Affiliate" means a Person controlling, controlled by or under common control with another Person. For this purpose, control shall mean the ability to direct the management and affairs of a Person, whether through ownership of securities, by contract or otherwise;

"Audited Accounts" means (i) the audited consolidated balance sheet of the Company and the Subsidiaries made up as at the Balance Sheet Date; (ii) the audited consolidated profit and loss account, the audited consolidated statement of total recognised gains and losses and the audited consolidated statement of cash flows of the Company and the Subsidiaries in respect of the financial year ending on the Balance Sheet Date ; (iii) the audited balance sheets of the Company and each of the Subsidiaries made up as at the Balance Sheet Date; and (iv) the audited profit and loss accounts, the audited statements of total recognised gains and losses and the audited statements of cash flows of the Company and each of the Subsidiaries in respect of the financial year ending on the Balance Sheet Date, including, in each case, the notes thereto and the directors' reports and auditors' reports, true copies of all of which will be annexed to the Disclosure Letter;

"Authorisation" means any franchise, permit, license, authorisation, order, certificate, registration or other consent or approval granted by any Court, Governmental Authority or other party contracting with the Company or any Subsidiary;

"Axsia Scheme" means the TGE pension scheme currently governed by a deed dated 24 July 1996;

"Balance Sheet Date" means December 31, 1999;

"Beneficial Owner" means, when used in the context of the ownership of a security, any Person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares with respect to such security (i) voting power (which includes the power to vote, or to direct the voting of, such security) and/or (ii) investment power (which includes the power to dispose of, or to direct the disposition of, such security);

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for ordinary banking business in London;

"Company" means Axsia Group Limited, a company registered in England under number 3508104 and incorporated on 11 February, 1998 as a private company limited by shares under the Companies Act 1985;

"Companies Acts" means statutes from time to time in force concerning companies including the Companies Act 1985, the Companies Act 1989, Part V of the Criminal Justice Act 1993 and the Companies Consolidation (Consequential Provisions) Act 1985;

"Completion" means completion of the sale and purchase of the Sale Shares in accordance with Clause 5 (Completion);

"Completion Date" means the date for Completion which is agreed between the parties following satisfaction or waiver of the Conditions and not (save as set out in Sub-Clause 5.4A) later than the Final Completion Date;

"Computer Systems" means the Hardware, Software and Data;

"Conditions" means the conditions set out in Sub-Clause 4.1 (Conditions);

"Continuing Directors" means the persons to be designated by the Purchaser as continuing directors of the Company and the Subsidiaries following Completion (which shall not include any directors appointed by any of the Institutional Vendors);

"Court" means any court or arbitration tribunal established and functioning under the Laws of any nation or state, including the United Kingdom, the United States of America, or any political subdivision thereof;

"Data" means any data or information used by or for the benefit of the Company or any of the Subsidiaries at any time and stored electronically at any time;

"Directors" means the persons serving as directors of the Company and the Subsidiaries on the date of this Agreement;

"Disclosure Letter" has the meaning given in Sub-Clause 8.1 (General);

"Encumbrance" includes any interest or equity of any Person (including any right to acquire, option or right of pre-emption) or any mortgage, charge, pledge, lien, assignment, hypothecation, security interest (including any created by law), title retention

or other security agreement or arrangement or a rental, hire purchase, credit sale or other agreement for payment on deferred terms;

"Final Completion Date" means the date which is the later of March 15, 2001 and 15 Business Days following delivery of the Disclosure Letter contemplated by Sub-Clause 8.1 hereof;

"Governmental Authority" means any national, federal, regional, state, local or other governmental agency, authority, administrative agency, regulatory body, commission or instrumentality (other than a Court), including any multinational authority having governmental or quasi-governmental powers;

"Hardware" means any computer equipment used by or for the benefit of the Company or any of the Subsidiaries at any time including, without limitation, PCs, mainframes, screens, terminals, keyboards, disks, printers, cabling, and all associated and peripheral electronic equipment but excluding all Software;

"ICG Option" means the option in favour of the holders of the Preference Shares at the date of this Agreement pursuant to the amended and restated call option deed dated 1 May 1998 under which such preference shareholders have an option to acquire certain ordinary shares in the Company from SUK BOF III Nominees Limited;

"Institutional Vendors" means the holders of the Preference Shares at the date of this Agreement, Meggitt Properties Plc and SUK BOF III Nominees Limited;

"Intellectual Property" means patents, trade marks, service marks, rights (registered or unregistered) in any designs and applications for any of the foregoing; trade or business names; copyright (including rights in computer software) and topography rights; know-how; secret formulae and processes; lists of suppliers and customers and other confidential and proprietary knowledge and information; rights protecting goodwill and reputation; database rights and rights under licences and consents in relation to such things and all rights or forms of protection of a similar nature to any of the foregoing or having equivalent effect anywhere in the world;

"Intellectual Property Agreements" means agreements or arrangements relating in any way, whether wholly or partly, to Intellectual Property;

"Knowledge" means that which is actually known or understood. The Knowledge of the Vendors at any given time shall mean the Knowledge of any of the Vendors at that time;

"Laws" means all laws, statutes and ordinances of any nation or state, including the United Kingdom, the United States of America, and any political subdivision thereof, and including all decisions of Courts having the effect of law in any such jurisdiction;

"Leased Properties" means the Properties indicated in Schedule 4 (Particulars of Property) as held by the Company or a Subsidiary under lease, sub-lease, tenancy or other agreement;

"Listed Intellectual Property" means the Intellectual Property which will be referred to in the list annexed to the Disclosure Letter;

"Listed Intellectual Property Agreements" means the Intellectual Property Agreements which will be set out in the list annexed to the Disclosure Letter;

"Management Accounts" means (i) the consolidated balance sheet of the Company and the Subsidiaries made up as at December 31, 2000; (ii) the consolidated profit and loss account and the consolidated statement of cash flows of the Company and the Subsidiaries for the period from the Balance Sheet Date to December 31, 2000; (iii) the balance sheets of the Company and each of the Subsidiaries made up as at December 31, 2000; and (iv) the profit and loss accounts and the statements of cash flows of the Company and each of the Subsidiaries for the period from the Balance Sheet Date to December 31, 2000, true copies of all of which will be annexed to the Disclosure Letter;

"Material" (and its correlative term "Materially") means, when used in the context of any representation, warranty, covenant or condition with respect to a Person, material to the business, assets, results of operations, condition (financial and otherwise) or prospects of the specified Person and its subsidiaries, if any, taken as a whole, or, when used with reference to the business of the Company and the Subsidiaries, the term shall apply to all the business of the Company and the Subsidiaries taken as a whole; provided, however, that, if the subject matter modified by the term "Material" can be expressed in monetary terms, the term "Material" shall mean not less than (pound) 500,000;

"Material Adverse Effect" means, when used in any representation, warranty, covenant or condition of a Person, any condition, circumstance, event, change or effect that would be material and adverse to the business, assets, results of operations, condition (financial and otherwise) or prospects of specified Person and its subsidiaries, if any, taken as a whole, or, when used with reference to the business of the Company and the Subsidiaries, the term shall apply to all the business of the Company and the Subsidiaries taken as a whole; provided, however, that, if the subject matter to which the term "Material" is to be applied can be expressed in monetary terms, the term "Material" shall mean not less than (pound) 500,000;

"Material Subsidiaries" means the Subsidiaries details of which are set out in Parts I, II, III, IV, V and VIII of Schedule 2;

"Non-Institutional Vendors" means those Vendors who are not Institutional Vendors;

"Options" shall mean the outstanding options to acquire a total of 148,144 "A" Ordinary Shares in the capital of the Company;

"Optionholders" means the persons listed in Part III of Schedule 1 (The Vendors and the Company) as the holders of the Options;

"Order" means any judgment, order or decree of any Court or Governmental Authority of competent jurisdiction;

"Owned Properties" means the Properties indicated in Schedule 4 (Particulars of Properties) as owned by the Company or a Subsidiary;

"Person" means an individual, partnership, limited liability company, corporation, joint stock company, trust, estate, joint venture, association or unincorporated organization, or any other form of business or professional entity and shall be construed so as to include that Person's assigns, transferees or successors in title, but shall not include a Court or Governmental Authority;

"Preference Shares" means the 7,170,000 preference shares of (pound) 0.999 each in the Company;

"Preference Shareholders" means the holders of the Preference Shares of (pound) 0.999 each in the Company on the Completion Date;

"Preference Share Transfer" means the aggregate transfer of 3,693,694 Preference Shares from the holders thereof at the date hereof as contemplated pursuant to Clause 10.14;

"Principal Warrantors" means the Vendors other than the Preference Shareholders (in their capacity as such);

"Properties" means the properties particulars of which are set out in Schedule 4 (Particulars of Properties);

"Records" has the meaning given in Sub-Clause 2.7(A) of Schedule 3 (Warranties and Representations);

"Regulation" means any regulation, policy, protocol, proclamation, executive order or ordinance issued or otherwise applicable under applicable Laws or issued or promulgated by any Governmental Authority having the effect of Law or any rule or regulation of any self-regulatory organization, such as a national securities exchange in the United Kingdom or the United States of America;

"Relevant Claim" has the meaning given in Paragraph (C) of Sub-Clause 8.6 (Vendor Protection);

"Restricted Business" has the meaning given in Sub-Clause 7.1 (Restricted Business);

"Sale Shares" means the shares to be bought and sold pursuant to Clause 2.1 (Sale of Shares) being all the issued ordinary shares in the capital of the Company (including any shares issued prior to Completion upon exercise of the Options);

"Shareholders" means the persons named in Part I of Schedule 1 as the holders of the Preference Shares and the "A" Ordinary, "B" Ordinary and "C" Ordinary Shares in the capital of the Company;

"Software" means any set of instructions for execution by microprocessor used by or for the benefit of the Company or any of the Subsidiaries at any time, irrespective of application, language or medium;

"Subsidiaries" means each body corporate set forth in Schedule 2 (The Subsidiaries) being those bodies corporate in which the Company, directly or indirectly, owns outstanding capital stock or other voting securities having the power, under ordinary circumstances, to elect a majority of the directors or similar members of the governing body of such body corporate or otherwise to direct the management and policies of such body corporate;

"Taxation" and "Tax" includes (without limitation) corporation tax, advance corporation tax, the charge under Section 419 of the Taxes Act 1988, income tax, capital gains tax, the charge under Section 601(2) of the Taxes Act 1988, value added tax, excise duties, the charge to tax under Schedule 9A of the Value Added Tax Act 1994, customs and other import duties, inheritance tax, stamp duty, stamp duty reserve tax, capital duties, national insurance contributions, local authority council taxes, petroleum revenue tax, foreign taxation and duties, amounts payable in consideration for the surrender of group relief or advance corporation tax or refunds pursuant to Section 102 of the Finance Act 1989 and any payment whatsoever which the Company may be or become bound to make to any Person or Governmental Authority as a result of the operation of any enactment relating to any such taxes or duties and all penalties, charges and interest relating to any of the foregoing or resulting from a failure to comply with the provisions of any enactment relating to taxation;

"Taxes Act 1988" means the Income and Corporation Taxes Act 1988;

"TCGA 1992" means the Taxation of Chargeable Gains Act 1992;

"Value Added Tax" and "VAT" mean value added tax as provided for in the Value Added Tax Act 1994 and legislation supplemental thereto or replacing, modifying or consolidating it; references to income or profits or gains earned, accrued or received shall include income or profits or gains treated as earned, accrued or received for the purposes of any legislation; and references to the "Company" include each of the Subsidiaries;

"Vendors" means the Shareholders and the Optionholders;

"Vendors' Solicitors" means Lovells;

"Warranties" means the warranties and representations set out in Clause 2 of Schedule 3 (Warranties and Representations);

any question whether a Person is connected with another shall be determined in accordance with the Taxes Act 1988, Section 839 (subject to the deletion of the words from "Except" to "arrangements" in sub-section (4) thereof) which shall apply in relation to this Schedule as it applies in relation to that Act; and

references to any Act, statutory instrument, regulation, by-law or other requirement of English law and to any English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any legal concept or thing shall in respect of any jurisdiction other than England be deemed to include that which most nearly approximates in that jurisdiction to the English legal term.

Where, in this Agreement, a term is defined in and for the purposes of a particular Clause, Sub-Clause, Paragraph or Sub-Paragraph the relevant definition shall apply, where the context admits, for all other purposes of this Agreement.

Where this Agreement refers to procurement by the Vendors, such procurement shall mean:

- (a) with respect to each Vendor that it shall procure that any voting powers exercisable by it at a general meeting of the Company shall be exercised in a manner consistent with the procurement of the matter concerned;
- (b) with respect to any directors of the Company who have been appointed by an Institutional Vendor, that the relevant Institutional Vendor shall direct such appointed director to act (subject to his fiduciary duties) in a manner consistent with the procurement of the matter concerned; and
- (c) where any Vendor is also a director or controlled by a person who is a director of the Company, that such Vendor (or the person in control of such Vendor) shall procure that the relevant director acts (subject to his fiduciary duties) in a manner consistent with the procurement of the matter concerned.

1.2 Construction of Certain References

In this Agreement, where the context admits:

- A. words and phrases the definitions of which are contained or referred to in Part XXVI of the Companies Act 1985 shall be construed as having the meanings thereby attributed to them;
- B. references to statutory provisions shall be construed as references to those provisions as amended or re-enacted or as their application is modified by other provisions from time to time and shall include references to any provisions of which they are re-enactments (whether with or without modification);
- C. references to Clauses and Schedules are references to Clauses and Schedules of and to this Agreement, references to Sub-Clauses or Paragraphs are, unless otherwise stated, references to Sub-Clauses or Paragraphs of the Clause or Sub-Clause of this Agreement in which the reference appears, and references to this Agreement include the Schedules;

- D. references to any document being in "agreed terms" or in "agreed form" are to that document in the form signed or initialled by or on behalf of the parties for identification; and
- E. words importing the singular shall include the plural and vice versa;
- F. the words "includes," "including," "particularly" and "in particular" shall be construed as being by way of illustration or emphasis only and shall not be construed as, nor shall they take effect as, limiting the generality of any preceding words; and
- G. the words "other" and "otherwise" shall not be construed ejusdem generis with any foregoing words where a wider construction is possible.

1.3 Headings

The headings and sub-headings are inserted for convenience only and shall not affect the construction of this Agreement.

1.4 Schedules

Each of the Schedules shall have effect as if set out herein.

2. SALE OF SHARES

2.1 Sale and Purchase

- A. Subject to the terms of this Agreement, each Vendor with full title guarantee for its Sale Shares shall sell and the Purchaser shall purchase, free from all Encumbrances and together with all rights now or hereafter attaching thereto the number of Sale Shares set out in Schedule 1 in respect of such Vendor (as may be amended pursuant to Clause 10.14) (plus a further 148,144 "A" Ordinary Shares if the same are issued pursuant to exercise of the Options), comprising in aggregate the entire issued ordinary share capital of the Company.
- B. On Completion, the Purchaser shall procure that the Company shall redeem in full the Preference Shares by paying the Preference Shareholders the sum of (pound) 7,162,830.

2.2 No Sale of Part Only

The Purchaser shall not be obliged to complete the purchase of any of the Sale Shares unless the purchase of all the Sale Shares and the redemption of the Preference Shares are completed simultaneously.

2.3 Waiver of Pre-emption Rights

Each of the Vendors hereby waives any pre-emption rights he may have relating to the Sale Shares, whether conferred by the Company's Articles of Association or otherwise.

3. CONSIDERATION

The total consideration for the "A" Ordinary Shares, the "B" Ordinary Shares and the "C" Ordinary Shares in issue on Completion shall be the sum of (pound)25.668 per share (it being agreed that the total of the amounts payable under this Clause 3 plus any amounts paid or payable by the Company to the Optionholders in respect of cancellation of Options and amounts paid or payable by the Company in respect of redemption of the Preference Shares shall be (pound)31,500,000).

4. CONDITIONS

4.1 Conditions

Completion is conditional upon:

- A. The Purchaser being satisfied in its sole discretion with the results of its legal, financial and business due diligence investigations contemplated by Clause 6 (Purchaser's Right of Access);
- B. The Purchaser having obtained, on terms and conditions satisfactory to the Purchaser in its reasonable commercial discretion, all of the financing required to consummate the transactions contemplated by this Agreement;
- C. no Material Adverse Effect having occurred with respect to the Company since the date of this Agreement;
- D. All of the Material consents and approvals requested by the Purchaser and required from Governmental Authorities or from any other party contracting with the Company or any other Subsidiary in order to implement fully the terms of this Agreement having been duly obtained;
- E. The Purchaser having procured all Material consents and approvals requested by the Vendor and required of it from Governmental Authorities or third parties in order to implement fully the terms of this Agreement;
- F. The Non-Institutional Vendors, the Company and the Subsidiaries having complied with the restrictions on the activities of the Non-Institutional Vendors, the Company and the Subsidiaries contained in Sub-Clauses 8.7 (Pending Completion) and 8.8 (Liaison on Conduct of Business) and in Paragraph 2.8(A) (Business Since the Balance Sheet Date) of Schedule 3 (Warranties and Representations) from the date hereof down to Completion;

G. No complaint, demand, action, suit, or proceeding being pending or threatened before any Court or Governmental Authority wherein an unfavorable Order would

1. prevent consummation of any of the transactions contemplated by this Agreement;
2. cause any of the transactions contemplated by this Agreement to be rescinded following consummation;
3. affect adversely the right of the Purchaser to own, operate, or control the Sale Shares or the Company; or

and no such Order being in effect.

H. Each of the Vendors shall have tendered all of its Sale Shares for purchase by the Purchaser at Completion in accordance with the terms and provisions of this Agreement.

4.2 Waiver

The Purchaser may waive in whole or in part all or any of the Conditions other than Condition 4.1.E or extend the period in which such Conditions are to be satisfied. The Vendors may waive in whole or in part Condition 4.1.E or extend the period in which such Condition is to be satisfied. The waiver of any of the Conditions and the completion of the transactions contemplated by this Agreement shall not be considered a waiver of any other rights of the Purchaser or (in the case of Condition 4.1.E) the Vendors under this Agreement or at law.

5. COMPLETION

5.1 Date and Place of Completion

Completion shall take place on the Completion Date at the offices of Vinson & Elkins L.L.P. at Regis House, 45 King William Street, London EC4R 9AN at 10.00 a.m.

5.2 Vendors' Obligations

On Completion each of the Vendors in relation to Sub-Clauses 5.2 A.1,2 and 3, B, C and E and each of the Non-Institutional Vendors in relation to Sub-Clauses 5.2 A.4,5 and 6,D, F and G shall:

A. deliver to the Purchaser:

1. duly executed transfers of the Sale Shares by the registered holders thereof in favour of the Purchaser or as it shall direct together with the relative share certificates;

2. such waivers or consents as the Purchaser may require to enable the Purchaser or its nominees to be registered as holders of the Sale Shares; and
 3. powers of attorney in an agreed form;
 4. a certificate (without qualification as to materiality or otherwise) of a director and the secretary of the Company to the effect that each of the conditions specified in Paragraphs (A)(2), (C), (D), (F) and (G) of Sub-Clause 4.1 (Conditions) has been satisfied in all respects, together with copies of all Material consents and approvals procured pursuant to Paragraph (D) of Sub-Clause 4.1 (Conditions); 5. a certificate of the secretary of the Company to the effect that all appropriate corporate and shareholder authorizations of the Company and the Subsidiaries necessary to authorize the transactions contemplated by this Agreement have been obtained, together with certified copies of such authorizations; and
 6. such other certificates or documents as the Purchaser may reasonably require (including evidence satisfactory to the Purchaser that any liability of the Company or any Subsidiary in respect of management fees payable to TGE Group Limited will terminate upon Completion).
- B. procure to the extent each Vendor is able that the Directors (other than the Continuing Directors) and, if requested by the Purchaser, the secretary or secretaries of the Company and the Subsidiaries retire from all their offices and employments with the Company and the Subsidiaries, each delivering to the Purchaser a deed (in the agreed terms) made out in favour of the Company and/or the Subsidiaries acknowledging that he has no claim outstanding for compensation or otherwise and without any payment under the Employment Rights Act 1996;
- C. procure to the extent each Vendor is able the resignation of the auditors of the Company and the Subsidiaries in accordance with Section 393 of the Companies Act 1985, accompanied by a written statement pursuant to Section 394 of that Act that there are no circumstances connected with their resignation which should be brought to the notice of the members or creditors of each such company and that no fees are due to them and deliver such resignation and statement to the Purchaser;
- D. deliver to the Purchaser as agent for the Company and the Subsidiaries:
1. all the statutory and other books (duly written up to the date immediately prior to the Completion Date) of the Company and each of the Material Subsidiaries and its/their certificate(s) of incorporation, any certificates of incorporation on change of name and common seal(s);

2. certificates in respect of all issued shares in the capital or an indemnity in respect thereof of each of the Material Subsidiaries and transfers of all shares, if any, in any Subsidiary not held by the Company in favour of such Persons as the Purchaser shall direct; and
 3. the title deeds to the Properties.
- E. procure to the extent each Vendor is able a board meeting of the Company and of each of the Subsidiaries to be held at which there shall be:
1. passed a resolution, in the case of the Company, declaring such dividends on the Preference Shares as shall have accrued in respect of the period since 31 January 2001 up to Completion Date and directing that such dividends be paid immediately prior to Completion and resolving to redeem the Preference Shares;
 2. passed a resolution to register, in the case of the Company, the transfers of the Sale Shares and, in the case of the Subsidiaries, the share transfers referred to in Paragraph (D)(2) and (subject only to due stamping) to register, in the register of members, each transferee as the holder of the shares concerned;
 3. appointed as directors and/or secretary such persons as the Purchaser may nominate, such appointments to take effect upon Completion;
 4. tendered and accepted the resignations and acknowledgements of the directors and secretary referred to in Paragraph (B), each such acceptance to take effect upon Completion; and
 5. revoked all existing authorities to banks.
- F. deliver to the Purchaser, certified as correct by the secretary of the relevant company, the minutes of each such board meeting referenced in Paragraph (E) above; and
- G. procure the discharge of all guarantees and like obligations given by the Company or any of the Subsidiaries in respect of the obligations of any other Person (and including any guarantees and obligations stipulated to be discharged at Completion in the Disclosure Letter), such discharge to be given in the agreed terms.

5.3 Purchaser's Obligations

- A. The Purchaser shall not be obliged to complete the purchase of the Sale Shares if any of the actions or matters listed in Sub-Clauses 5.2 A.4,5 and 6,D,F and G have not taken place as therein provided.
- B. On Completion the Purchaser shall:

1. pay the full consideration for the Sale Shares as provided by Clause 3 (Consideration), by way of telegraphic transfer into the account of the Vendors' Solicitors, at Barclays Bank Plc sort code 20-00-00 account number 10610984;
2. deliver to the Vendors a certificate (without qualification as to materiality or otherwise) of the Chief Financial Officer of the Purchaser to the effect that Condition 4.1(E) has been satisfied in all respects; and
3. procure that the Company pays (pound)7,162,830 to the Preference Shareholders in order to fully redeem their shares.

5.4 Failure to Complete

If in any respect the obligations of the Vendors or the Purchaser are not complied with on or before the Final Completion Date the party not in default may:

- A. defer Completion to a date not more than 30 days after the Final Completion Date (and so that the provisions of this Sub-Clause 5.4, apart from this item, shall apply to Completion as so deferred); or
- B. proceed to Completion so far as practicable (without prejudice to its rights hereunder); or
- C. rescind this Agreement.

5.5 No Waiver

Completion shall not be deemed a waiver of any rights of the Purchaser granted by this Agreement or at law and expressed or intended to have effect thereafter.

- 5.6 The Purchaser shall take all steps and make all payments as are necessary to refinance and/or replace the facility which the Company has with National Westminster Bank Plc and/or its Affiliates on or immediately prior to Completion.

6. PURCHASER'S RIGHT OF ACCESS

6.1 Right of Access

Except as provided in Sub-Clause 6.2 (Excluded Items) below, from and after the date of this Agreement until the earlier of the Completion Date or the rescission of this Agreement:

- A. the Non-Institutional Vendors shall procure that the Company and each of the Subsidiaries provide to the Purchaser, its lenders and Affiliates and each of their respective authorised representatives, including accountants, consultants and solicitors, reasonable access upon reasonable notice at all reasonable times, to the

assets, business, facilities, properties, agreements, books, records (including tax returns filed and in preparation) and key employees of or relating to the Company and each of the Subsidiaries in order that the Purchaser shall have full opportunity to make such investigation as it shall reasonably desire to make of the affairs of the Company and each of the Subsidiaries, and the Non-Institutional Vendors shall procure that the Company and each of the Subsidiaries shall cooperate fully in connection therewith;

- B. the Non-Institutional Vendors shall, as soon as practicable upon request of the Purchaser, supply or procure the supply of any information reasonably required by the Purchaser relating to the Company and each of the Subsidiaries and their respective affairs; and
- C. the Non-Institutional Vendors shall use their best efforts to procure that the independent certified public accountants of the Company and each of the Subsidiaries (i) provide to the Purchaser, its lenders and Affiliates and each of their respective authorised representatives, including accountants, consultants and solicitors, free and full access upon reasonable notice at all reasonable times, subject to such confidentiality undertakings as such accountants may reasonably require, to the records and work papers of such accountants relating to the Company and each of the Subsidiaries and (ii) consent to the inclusion of the Audited Accounts, or any portion thereof, in any filings required of the Purchaser by Law or by any securities exchange or Governmental Authority having jurisdiction over it (including the Securities and Exchange Commission and the New York Stock Exchange), to the extent such Audited Accounts are so required to be included therein.

The Purchaser hereby agrees to use its reasonable efforts to minimize any disruption to the business of the Company, the Subsidiaries and their accountants in connection with the conduct of the investigations contemplated by this Clause.

6.2 Excluded Items

Notwithstanding anything to the contrary in Sub-Clause 6.1 (Right of Access) above, the Non-Institutional Vendors may withhold from the Purchaser or restrict the Purchaser's right of access to certain original documents and specific information (the "Excluded Items") which constitute sensitive commercial information, the disclosure of which the Non-Institutional Vendors reasonably believe would adversely affect the competitive position of the Company and the Subsidiaries if this Agreement were to be rescinded prior to Completion. If the Non-Institutional Vendors restrict the Purchaser's right of access to any Excluded Items, the Non-Institutional Vendors shall provide or procure the provision of outline written summaries of such Excluded Items and/or written answers to the Purchaser's questions regarding such Excluded Items. The Non-Institutional Vendors may omit from such summaries and answers commercially sensitive information, the disclosure of which the Non-Institutional Vendors reasonably believe would adversely affect the competitive position of the Company and the Subsidiaries if this Agreement were to be rescinded prior to Completion. Such summaries and answers shall in all other

respects provide, as applicable, accurate summaries of such Excluded Items and accurate answers to such questions.

6.3 No Solicitation of Personnel

If this Agreement is not completed, the Purchaser hereby agrees, for a period of one year subsequent to the date of this Agreement, not to solicit or entice away or endeavour to solicit or entice away from the Company or any of the Subsidiaries any person who at the date of this Agreement is a Director, a senior employee of the Company or any of the Subsidiaries or an employee with whom the Purchaser has contact or of whom the Purchaser gains knowledge during its investigation of the Company and the Subsidiaries to take up employment with the Purchaser.

7. RESTRICTION OF VENDORS

7.1 Restricted Business

In this Clause, "Restricted Business" means the design, production and installation of fluid processing technology applications that directly or indirectly competes with the business of the Company or any of the Subsidiaries carried on at the Completion Date.

7.2 Covenants

The Non-Institutional Vendors undertake with the Purchaser (as trustee for itself and the Company) and its successors in title that they will not and that they will procure that none of their Affiliates will, either on their own account or in conjunction with or on behalf of any other Person:

- A. for the period of one year after the Completion Date (or, if sooner, in respect of any Non-Institutional Vendor who is an Optionholder, until the Company terminates the contract of employment of such Optionholder for any reason other than gross or serious or repeated misconduct) carry on or be engaged, concerned or interested (directly or indirectly and whether as principal, director, employee, agent, consultant, partner or otherwise) in the active management of any Restricted Business (provided, however, that this Paragraph A shall not prohibit any of the Vendors or their Affiliates from being the registered holder or Beneficial Owner of any class of securities of any entity engaged in any Restricted Business);
- B. at any time after the Completion Date, directly or indirectly use or attempt to use in the course of any business any trade or service mark, trade name, design or logo (whether registered or not and including the Listed Intellectual Property referred to in Schedule 3) used in the business of the Company or any of the Subsidiaries or any other name, logo, trade or service mark or design which is or might be confusingly similar thereto; and
- C. for the period of three years after the Completion Date, solicit or entice away or endeavor to solicit or entice away from the Company or any of the Subsidiaries

any person who at the Completion Date is (or who within a period of one year prior to the Completion Date has been) a Director, officer, manager, employee or servant of the Company or any of the Subsidiaries to take up employment with the Vendors.

7.3 Vendors to Procure Compliance

The Non-Institutional Vendors undertake to take all such steps as shall from time to time be necessary to ensure compliance with the terms of Sub-Clause 7.2 above by employees and agents of the Vendors.

7.4 Separate Covenants

Each of the undertakings in Sub-Clauses 7.2 and 7.3 shall be construed as a separate and independent undertaking and if one or more of the undertakings is held to be void or unenforceable, the validity of the remaining undertakings shall not be affected.

7.5 Reasonableness

The Vendors agree that the restrictions and undertakings contained in Sub-Clauses 7.2 and 7.3 are reasonable and necessary for the protection of the Purchaser's legitimate interests in the goodwill of the Company and the Subsidiaries. If, however, any such restriction or undertaking shall be found to be void or voidable but would be valid and enforceable if some part or parts of the restriction or undertaking were deleted, such restriction or undertaking shall apply with such modification as may be necessary to make it valid and enforceable.

7.6 Void or Unenforceable Restrictions

Without prejudice to Sub-Clause 7.5, if any restriction or undertaking is found by any court or other competent authority to be void or unenforceable the parties shall negotiate in good faith to replace such void or unenforceable restriction or undertaking with a valid provision which, as far as possible, has the same legal and commercial effect as that which it replaces.

7.7 Confidential Information Concerning the Company

No Vendor shall and each Vendor shall procure that no officer or employee of any such Vendor shall make use of or divulge to any third party (other than to the Vendors' professional advisers for the purpose of this Agreement in which case each Vendor shall use its reasonable endeavours to procure that such advisers keep such information confidential on terms equivalent to this Clause) any confidential information relating to the Company and the Subsidiaries save only:

- A. insofar as the same has become public knowledge otherwise than, directly or indirectly, through the Vendors' breach of this Sub-Clause 7.7 or the failure of the officers, employees or professional advisers referred to above to keep the same confidential; or

- B. to the extent required by Law or by any Court or Governmental Authority.

8. WARRANTIES

8.1 General

The Vendors in the case of the statements made in relation to clause 2.1(A) (B) and (C) of Schedule 3 and the Principal Warrantors in the case of all other statements in clause 2 of Schedule 3 hereby severally represent and warrant as set out herein to and for the benefit of the Purchaser that such statements will be correct and complete as of the Completion Date (as though made then and as though the Completion Date were substituted for the date of this Agreement throughout Clause 2 of Schedule 3 (Warranties and Representations)), except (i) as fairly set forth in the disclosure letter to be delivered by the Vendors to the Purchaser not later than the 20th Business Day subsequent to the date of this Agreement (the "Disclosure Letter") and (ii) as fairly disclosed by the Vendors in the period from the date of delivery of the Disclosure Letter to Completion. The Disclosure Letter and any disclosures by the Vendors subsequent to the date of delivery of the Disclosure Letter and on or prior to the Completion Date shall be arranged in sections corresponding to the numbered and lettered paragraphs contained in Clause 2 of Schedule 3 (Warranties and Representations).

8.2 Purchaser's knowledge

The Purchaser shall not be entitled to make a Relevant Claim to the extent that as at Completion it is aware of any fact or circumstance which to its knowledge may give rise to such Relevant Claim.

8.3 Warranties to be independent

Each of the Warranties shall be separate and independent and, save as expressly provided, shall not be limited by reference to any other Warranty or anything in this Agreement.

8.4 Survival and Breach

A. The Purchaser shall be entitled to recover damages from each of the Vendors if at any time from Completion up to the second anniversary of Completion, any of the Warranties contained in paragraphs (A) (B) and (C) of Sub-Clause 2.1 (The Company and the Vendors) of Schedule 3 (Warranties and Representations), each of which shall survive Completion and continue in full force and effect for such period, is broken by it or proves to be untrue or misleading, provided that each Vendor shall only be liable to the Purchaser if and to the extent that it has breached such Warranties and no Vendor shall be liable pursuant to this Sub-Clause 8.4A for a breach of this Sub-Clause 8.4 A by another Vendor.

B. The Purchaser shall be entitled to recover damages from each of the Principal Warrantors in each case strictly by reference to the proportion of such Relevant Claim which is set out opposite the name of such Principal Warrantor in column 2 of Schedule 5 if:

1. during the 30 day period following Completion, any of the Warranties contained in Sub-Clause 2.13 (Excluded Items) of Schedule 3 (Warranties and Representations), each of which shall, for this purpose, survive Completion and continue in full force and effect for such period, is broken or proves to be untrue or misleading; or
2. during the period of 20 weeks following Completion, any of the Warranties contained in Clause 2 of Schedule 3 (Warranties and Representations) (other than those contained in Paragraphs (A) (B) and (C) of Sub-Clause 2.1 (The Company and the Vendors), each of which shall, for this purpose, survive Completion and continue in full force and effect for such period, is broken or proves to be untrue or misleading with respect to any matter:
 - a of which any of the Principal Warrantors or Optionholders had Knowledge prior to Completion; and
 - b that is not fairly disclosed in or, to the Knowledge of the Vendors, is misrepresented in the Disclosure Letter (or in subsequent disclosures in the period from the date of delivery of the Disclosure Letter up to Completion).

8.5 Damages

If, subsequent to the Completion Date, the Purchaser becomes entitled to recover damages from the Vendors or the Principal Warrantors pursuant to Sub-Clause 8.4 (Survival and Breach), the Vendors hereby covenant, subject to Sub-Clause 8.6 (Vendor Protection) to pay, on demand, to the Purchaser the amount by which the value of the Sale Shares has diminished as a result of such breach.

8.6 Vendor Protection

A. Guarantees

The Purchaser shall use its best endeavours to secure the release of the Vendors from the guarantees and other contingent liabilities listed in the Disclosure Letter for the purpose of this Paragraph and shall in the meantime indemnify the Vendors against any liability (including costs, damages and expenses) thereunder or which may be incurred in relation thereto.

B. Loan Accounts

At Completion the Purchaser shall procure that the Company and the Subsidiaries shall repay to the Vendors the amounts owing to them as specified in the Disclosure Letter.

C. Limitation of Liability

The following Paragraphs of this Sub-Clause 8.6 shall operate to limit the liability of the Vendors under Sub-Clauses 8.4 (Survival and Breach) and 8.5 (Damages), subject to Paragraph (D) below. In this Sub-Clause 8.6, the term "Relevant Claim" means any claim under or in connection with the Warranties or the Disclosure Letter.

1. Financial Limits

- a. The aggregate liability of the Principal Warrantors in respect of all Relevant Claims shall be limited to (pound)3,100,000 and the individual liability of the Principal Warrantors in respect of all Relevant Claims shall be limited to the amounts set opposite each of their names in column 3 of Schedule 5.
- b. The Principal Warrantors shall not be liable in respect of a particular Relevant Claim unless the aggregate liability of the Principal Warrantors in respect of all Relevant Claims exceeds (pound)50,000 in which case the Principal Warrantors shall be liable in the proportions set opposite their names in column 2 of Schedule 5 for the whole amount and not merely the excess over (pound)50,000.

2. Time Limits and Notice

The Vendors or Principal Warrantors (as applicable) shall have no liability in respect of any Relevant Claim unless the Purchaser shall have given notice in writing to the Vendors or Principal Warrantors (as applicable) of such claim specifying (in reasonable detail) the matter that gives rise to the claim, the nature of the claim and the amount claimed in respect thereof within the time periods provided in Sub-Clause 8.4 (Survival and Breach).

3. Recovery From Third Parties

If the Vendors pay to or for the benefit of the Purchaser an amount in respect of any Relevant Claim and any of the Purchaser, the Company or any of the Subsidiaries subsequently receives from any other Person any payment in respect of the matter giving rise to the Relevant Claim, the Purchaser shall thereupon reimburse the Vendors an amount up to the payment received (but in no event greater than the amount paid to or for the benefit of the Purchaser by the Vendors), after having taken into account any cost, liability (including tax liability) or expense in respect thereof and except to any extent that the liability of the Vendors in respect of the Relevant Claim was reduced to take account of such payment.

4. No Duplication of Recovery

The Purchaser shall not be entitled to recover damages or otherwise obtain reimbursement or restitution more than once in respect of the same loss.

D. Relevance of Limitations in Certain Circumstances

The provisions of Paragraphs (C)(1) and (2) shall not apply in respect of:

1. any Relevant Claim with respect to any of the Warranties contained in Paragraphs (A) (B) and (C) of Sub-Clause 2.1 (The Company and the Vendors) of Schedule 3 (Warranties and Representations); and
2. any other Relevant Claim if it is (or the delay in discovery of which is) the consequence of fraud, willful misconduct or willful concealment by the Vendor or Vendors against whom such claim is made.

8.7 Pending Completion

The Non-Institutional Vendors shall procure that (save only as may be necessary to give effect to this Agreement or as disclosed in the Disclosure Letter) none of the Non-Institutional Vendors nor the Company nor any of the Subsidiaries shall do, allow or procure any act or omission before Completion that would constitute a breach of any of the Warranties if they were given at any and all times from the date of delivery of the Disclosure Letter to Completion or that would make any of the Warranties inaccurate or misleading if they were so given. In particular, the Non-Institutional Vendors shall procure that (save as disclosed in the Disclosure Letter) Paragraph 2.8(A) (Business Since the Balance Sheet Date) of Schedule 3 (Warranties and Representations) shall be complied with at all times from the date hereof down to Completion.

8.8 Liaison on Conduct of Business

The Non-Institutional Vendors shall in addition and without limiting Sub-Clause 8.7 (Pending Completion) procure that, from the date of this Agreement until Completion, the business of the Company and the Subsidiaries is carried on in the usual and normal course and that none of the Company or the Subsidiaries shall enter into any contract or commitment or do anything that, in any such case, is either out of the ordinary and usual course of its business or of a Material nature without informing the Purchaser in writing in advance. In particular, the Non-Institutional Vendors shall procure that from the date of this Agreement until Completion, save after informing the Purchaser in writing in advance, none of the Company or the Subsidiaries shall declare, make or pay any dividend or distribution (whether of capital or profits) subsequent to the date of this Agreement, except for (i) dividends on the Preference Shares in respect of periods up to the Completion Date and (ii) monthly management fees of (pound)21,000 to TGE Group Limited in respect of periods up to the Completion Date (including any pro rata management fees for any partial month).

8.9 Further Disclosure by Non-Institutional Vendors

The Non-Institutional Vendors without prejudice to Sub-Clause 8.8 (Liaison on Conduct of Business) shall forthwith disclose in writing to the Purchaser by supplementing the Disclosure Letter (and references to the Disclosure Letter shall mean the Disclosure Letter as supplemented by any such disclosures made during the period from the date of delivery of the Disclosure Letter to Completion) any matter or thing that may arise or become known to the Non-Institutional Vendors after the date of delivery of the Disclosure Letter and before Completion that is inconsistent with any of the Warranties or that might make any of them Materially inaccurate or misleading if they were given at any and all times from the date hereof down to Completion or that is Material to be known to a purchaser for value of the Sale Shares.

8.10 Rescission

In the event of any matter or thing that is mentioned in Sub-Clause 8.7 (Pending Completion) becoming known to the Purchaser before Completion or in the event of it becoming apparent after the delivery of the Disclosure Letter but on or before Completion that the Vendors are in Material breach of any of the Warranties or any other term of this Agreement, the Purchaser may, without prejudice to the rights of the Purchaser under Sub-Clause 10.2 and Sub-Clause 10.11, rescind this Agreement by notice in writing to the Vendors.

8.11 Waiver of Claims

The Vendors undertake to the Purchaser that they will not make or pursue any claim that they have or may have against the Company, the Subsidiaries or any of the Employees (as such term is defined in Paragraph B(1) of Sub-Clause 2.12 (the Company and its Employees) of Schedule 3 (Warranties and Representations)) in respect of or arising out of the Warranties or any information supplied by them to or on behalf of the Vendors or their professional advisers or agents on or prior to the Completion Date.

9. ANNOUNCEMENTS

9.1 Restriction

Subject to Sub-Clause 9.2 (Permitted Announcements), neither the Vendors nor the Purchaser shall make any announcement, whether to the public, to the customers or suppliers of the Company, or to all or any of the employees of the Company, concerning the subject matter of this Agreement without the prior written approval of the other (which shall not be unreasonably withheld or delayed).

9.2 Permitted Announcements

Sub-Clause 9.1 (Restriction) shall not apply if and to the extent that such announcement is required by Law or by any securities exchange or Governmental Authority having jurisdiction over it (including the Securities and Exchange Commission, the New York Stock Exchange, the London Stock Exchange, The Panel on Take-overs and Mergers and

the Serious Fraud Office) and whether or not the requirement has the force of Law and provided that any such announcement shall be made only after reasonable consultation with the other party.

9.3 Confidential Information

Any such announcement permitted by this Clause 9 may include any information relating to the Company or the Subsidiaries as to which the Purchaser has an obligation of confidentiality, but only to the extent such information is required to be disclosed by Law or by any securities exchange or Governmental Authority referred to in Sub-Clause 9.2 (Permitted Announcements).

9.4 Continuance of Restrictions

The restrictions contained in this Clause on the part of the Vendors and Purchaser shall survive Completion.

10. PROVISIONS RELATING TO THIS AGREEMENT

10.1 Assignment

This Agreement shall be binding upon and inure for the benefit of the successors of the parties but shall not be assignable, save that the Purchaser may at any time assign all or any part of its rights and benefits under this Agreement, including the Warranties and any cause of action arising under or in respect of any of them, to any transferee of the share capital of the Company or of any of the Subsidiaries, or to any Affiliate of the Purchaser who may enforce them as if such transferee or Affiliate had also been named in this Agreement as the Purchaser.

10.2 Exclusivity

A. The Vendors will not, and the Vendors (in the case of the Non-Institutional Vendors, to the extent they are able) will procure that the Company and the Subsidiaries and their respective Affiliates, directors, officers, employees and representatives do not, prior to the earlier of Final Completion Date and the termination or rescission of this Agreement:

1. solicit, initiate, or encourage the submission of any proposal or offer from any Person relating to any:
 - a. liquidation, dissolution, or recapitalization;
 - b. merger or consolidation;
 - c. acquisition or purchase of securities or assets (save as contemplated by Clause 10.14); or

- d. similar transaction or business combination involving the Company or any of the Subsidiaries; or
- 2. participate in any discussions or negotiations regarding, furnish any information with respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any Person to do or seek any of the foregoing.
- B. Each Vendor will notify the Purchaser immediately if he becomes aware of any Person making any proposal, offer, inquiry, or contact with respect to any of the foregoing. If the Vendors, the Company or any of the Subsidiaries or any of their respective Affiliates, directors, officers, employees or representatives (including financial advisors) breaches his or its obligations contained in this Sub-Clause 10.2, the Purchaser shall be entitled to rescind this Agreement.

10.3 Whole Agreement

- A. This Agreement, together with any documents referred to in it, constitutes the whole agreement between the parties relating to its subject matter and supersedes and extinguishes any prior drafts, agreements, undertakings, representations, warranties, assurances and arrangements of any nature, whether in writing or oral, relating to such subject matter.
- B. The Purchaser acknowledges that it has not been induced to enter into this Agreement by any representation, warranty, promise or assurance by the Vendors or any other Person save for those contained in this Agreement and in the Disclosure Letter. The Purchaser agrees that (except in respect of fraud) it shall have no right or remedy in respect of any other representation, warranty, promise or assurance save for those contained in this Agreement.
- C. No variation of this Agreement shall be effective unless made in writing and signed by each of the parties.

10.4 Agreement Survives Completion

Survival of the Warranties and the recovery of damages by the Purchaser shall be governed by Sub-Clause 8.4 (Survival and Breach). All other provisions of this Agreement, in so far as the same shall not have been performed at Completion, shall remain in full force and effect notwithstanding Completion.

10.5 Rights, Powers, Privileges and Remedies

- A. The rights, powers, privileges and remedies provided in this Agreement are cumulative and are not exclusive of any rights, powers, privileges or remedies provided by law or otherwise.

- B. No failure to exercise, nor any delay in exercising, any right, power, privilege or remedy under this Agreement shall in any way impair or affect the exercise thereof or operate as a waiver thereof in whole or in part.
- C. No single or partial exercise of any right, power, privilege or remedy under this Agreement shall prevent any further or other exercise thereof or the exercise of any other right, power, privilege or remedy.

10.6 Release of Vendors

The Purchaser may release or compromise the liability of any of the Vendors hereunder without affecting the liability of the other Vendors.

10.7 Further Assurance

At any time after the date hereof each of the Vendors shall, at the request of the Purchaser, execute or procure the execution of such documents and do or procure the doing of such acts and things as the Purchaser may reasonably require for the purpose of vesting the Sale Shares in the Purchaser or its nominees and giving to the Purchaser the full benefit of all the provisions of this Agreement.

10.8 Invalidity

If any provision of this Agreement shall be held to be illegal, void, invalid or unenforceable under the laws of any jurisdiction, the legality, validity and enforceability of the remainder of this Agreement in that jurisdiction shall not be affected, and the legality, validity and enforceability of the whole of this Agreement in any other jurisdiction shall not be affected.

10.9 Payment to the Vendors

Any payment to be made to any specific Vendor under any provision of this Agreement may be made to the Vendors' Solicitors, whose receipt shall be an absolute discharge on behalf of such Vendor.

10.10 Counterparts

This Agreement may be executed in any number of counterparts, which shall together constitute one Agreement. Any party may enter into this Agreement by signing any such counterpart.

10.11 Costs

Each party shall bear its own costs arising out of or in connection with the preparation, negotiation and implementation of this Agreement, save that if this Agreement is rescinded by the Purchaser pursuant to Sub-Clause 10.2 (Exclusivity), the Vendors (in the proportions set out in Schedule 5) shall pay to the Purchaser its accountancy, legal and other costs in relation to the preparation and negotiation of this Agreement and the

investigation of the Company contemplated by Clause 6 (Purchaser's Right of Access) prior to the date this Agreement is so rescinded by the Purchaser.

10.12 Notices

- A. Any notice or other communication required to be given under this Agreement or in connection with the matters contemplated by it shall, except where otherwise specifically provided, be in writing in the English language and shall be addressed as provided in Paragraph (B) and may be:
1. personally delivered, in which case it shall be deemed to have been given upon delivery at the relevant address; or
 2. if within the United Kingdom, sent by first class pre-paid post, in which case it shall be deemed to have been given two Business Days after the date of posting; or
 3. if from or to any place outside the United Kingdom, sent by pre-paid priority airmail, in which case it shall be deemed to have been given seven Business Days after the date of posting; or
 4. sent by fax, in which case it shall be deemed to have been given when despatched, subject to confirmation of uninterrupted transmission by a transmission report provided that any notice despatched by fax after 17.00 hours (at the place where such fax is to be received) on any day shall be deemed to have been received at 09.30 (at such place) on the next Business Day.
- B. The addresses and other details of the parties hereto to which notices referred to in Paragraph (A) may be delivered are, subject to Paragraph (C):

Vendors: TGE Group Limited
 61 Arthur Road
 Wimbledon
 London SW19 7DN
 United Kingdom
 Attention: Lars McBride
 Telephone: 020 8947 4844
 Facsimile: 020 8947 4896

with a copy to:

Lovells
 65 Holborn Viaduct
 London EC1A 2DX
 United Kingdom
 Attention: James Wilson//Malcolm MacDougall
 Telephone: 020 7296 2000

Facsimile: 020 7296 2001

Purchaser: NATCO Group Inc.
 Brookhollow Central III, Suite 750
 2950 North Loop West
 Houston, Texas 77092
 Attention: J. Michael Mayer
 Daniel R. Carter
 Telephone: (713) 683-9292
 Facsimile: (713) 812-6654

with copies to:

Vinson & Elkins L.L.P.
 Regis House
 45 King William Street
 London EC4R 9AN
 United Kingdom
 Attention: Lawrence Ziman
 Telephone: 020 7618 6000
 Facsimile: 020 7618 6001

Vinson & Elkins L.L.P.
 1001 Fannin, Suite 2300
 Houston, Texas 77002
 Attention: William E. Joor, III
 W. Creighton Smith
 Telephone: (713) 758-2222
 Facsimile: (713) 758-2346

- C. Any party to this Agreement may notify the other parties of any change to its address or other details specified in Paragraph (B), provided that such notification shall be effective only on the date specified in such notice or five Business Days after the notice is given, whichever is later.

10.13 Several Liability

The obligations of each of the Vendors under or pursuant to this Agreement are several. Save as expressly provided in Clause 8 and Schedule 3, no Vendor shall be liable for any action or omission of any of the other Vendors and the Institutional Investors shall only be liable in relation to matters which arise directly out of their own default.

10.14 Transfer of Shares

The parties are aware of and hereby consent to the transfer pursuant to the Preference Share Transfer and the ICG Option of the following transfers of shares that may take place before Completion:

- 10.14.1 28,000 "B" Ordinary Shares from SUK BOF III Nominees Ltd to the holders of Preference Shares at the date hereof; and
- 10.14.2 3,693,694 Preference Shares from the holders at the date hereof to SUK BOF III Nominees Ltd.

11. LAW AND JURISDICTION

11.1 English Law

This Agreement shall be governed by, and interpreted and construed in accordance with, English law.

11.2 Jurisdiction

In relation to any legal action or proceedings to enforce this Agreement or arising out of or in connection with this Agreement ("proceedings") each of the parties irrevocably submits to the jurisdiction of the English courts and waives any objection to proceedings in such courts on the grounds of venue or on the grounds that the proceedings have been brought in an inconvenient forum.

AS WITNESS the hands of the duly authorised representatives of the parties on the date first before written.

SCHEDULE 1
THE VENDORS AND THE COMPANY

PART I: THE SHAREHOLDERS

Vendor -----	Number of Sale Shares -----
Braydeal Ltd.	80,000 "A" Ordinary Shares
Sloane Investments Ltd.	80,000 "A" Ordinary Shares
Suk Bof III Nominees Ltd.(1)	520,000 "B" Ordinary Shares
Meggitt Properties Plc.	120,000 "C" Ordinary Shares

Vendor -----	Number of Preference Shares -----
Alpinvest Mezzanine BV.....	286,800 Preference Shares
Intermediate Capital Group Plc	6,453,000 Preference Shares
Intermediate Capital Limited	430,200 Preference Shares

PART II: THE COMPANY

Name:	Axsia Group Limited
Number:	3508104
Registered Office:	61 Arthur Road London SW19 7DN
Authorised Capital:	160,000 "A" Ordinary Shares of 1p each 520,000 "B" Ordinary Shares of 1p each 120,000 "C" Ordinary Shares of 1p each 7,170,000 Preference Shares of (pound)0.999 each
Issued Capital:	800,000 Ordinary Shares 7,170,000 Preference Shares
Directors:	John Arthur Cope Derek James Elliott John Kristian Lars McBride Peter Gregory Michaluk Terence Twigger G.L. Wrigley (Will resign on or before Completion)
Secretary:	Lynne Jones Sampson

Accounting Reference Date: 31 December
 Auditors: Ernst & Young

PART III: THE OPTIONHOLDERS

Optionholder -----	Number of 'A' Ordinary Shares over which Options are held -----	Exercise Price per Share -----
Sloane Investments Ltd.	24,296	1p
Lars McBride	24,296	1p
Peter G Michaluk	37,926	1p
Ian S Harding	18,962	1p
Jonathan C Moseley	23,702	1p
Raymond G Keating	18,962	1p

	148,144	
	=====	

SCHEDULE 2
THE SUBSIDIARIES

PART I: AXSIA LIMITED

Name:	Axsia Limited
Number:	3047122
Registered Office:	61 Arthur Road London SW19 7DN
Authorised Capital:	160,000 "A" Ordinary Shares of 1p each 520,000 "B" Ordinary Shares of 1p each 120,000 "C" Ordinary Shares of 1p each 7,170,000 Preference Shares of (pound)1 each
Issued Capital:	800,000 Ordinary Shares 7,170,000 Preference Shares
Registered Shareholders:	Axsia Group Limited
Beneficial Owner of issued capital:	Axsia Group Limited
Directors:	John Arthur Cope John Kristian Lars McBride T. Twigger* G Wrigley*
Secretary:	Lynne Jones Sampson
Accounting Reference Date:	31 December
Auditors:	Ernst & Young

*Will resign on or before Completion.

PART II AXSIA SERCK BAKER LIMITED

Name: Axsia Serck Baker Limited
Number: 2106584
Registered Office: Riga House
380 Bristol Road
Gloucester
Gloucestershire GL2 5XY
Authorised Capital: Ordinary Shares - 100 shares of \$1
Deferred Ordinary Shares - 100 shares
of (pound)1
Issued Capital: 100* Ordinary Shares of \$1 and 2 Deferred
Shares of (pound)1
Registered Shareholders and
Beneficial Owner of
issued capital: [Axsia Limited]
Directors: J.A.Cope
Wayne Evans
R.L. Gregory
R.C. Ingles
J.K.L.McBride
P.G. Michaluk
J.C. Moseley
Secretary: Lynne Sampson
Accounting Reference Date: 31 December
Auditors: Ernst & Young

* The 1999 accounts show 65 shares issued; the Annual Return shows 100

PART III AXSIA HOWMAR LIMITED

Name: Axsia Howmar Limited

Number: 961792

Registered Office: Albany Park Estate
Frimley Road
Camberley
Surrey GU15 2QQ

Authorised Capital: (pound) 1,000,000 divided into 1,000,000
deferred ordinary shares of (pound)1 each
100 ordinary shares of US\$1 each

Issued Capital: 600,200 Deferred Ordinary Shares
100 Ordinary Shares

Registered Shareholders and

Beneficial Owner of
issued capital: Axsia Limited

Directors: D. G. F. Cash
J. A. Cope
I. Harding
R. G. Keating
J. K. L. McBride
P. G. Michaluk*
D. M. N. Welland

Secretary: Martin Jackson

Accounting Reference Date: 31 December

Auditors: Ernst & Young

*[not shown as a director in the 1999 accounts]

PART IV AXSIA SERCK BAKER INC.

Name: Axsia Serck Baker Inc.
Number: Incorporated in California, USA,
No. FES-95.2575292
Registered Office:

Authorised Capital:

Issued Capital:

Registered Shareholders and
Beneficial Owner of
issued capital: Axsia Limited
Directors:
Secretary:
Accounting Reference Date:
Auditors:

PART V SERCK BAKER A/S

Name: Serck Baker A/S
 Number: Incorporated in Norway 932171473
 Registered Office:
 Authorised Capital:

 Issued Capital:

 Registered Shareholders:
 Beneficial Owner of issued capital:
 Directors:
 Secretary:
 Accounting Reference Date:
 Auditors:

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PART VI SERCK BAKER LIMITED

Name: Serck Baker Limited
 Number: 3429326
 Registered Office: 61 Arthur Road
 London SW19 7DN

 Authorised Capital: (pound) 100

 Issued Capital: 2 Ordinary Shares of (pound)1 each

 Registered Shareholders and
 Beneficial Owner of
 issued capital: Axsia Limited
 Directors: J. K. L. McBride
 Secretary: Lynne J Sampson
 Accounting Reference Date: 31 December
 Auditors: None -- company is dormant

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PART VII HOWMAR LIMITED

Name: Howmar Limited
Number: 3429435
Registered Office: 61 Arthur Road
London SW19 7DN

Authorised Capital: (pound) 100

Issued Capital: 2 Ordinary Shares of (pound) 1 each

Registered Shareholders and
Beneficial Owner of
issued capital: Axsia Limited
Directors: J. K. L. McBride
Secretary: Lynne J. Sampson
Accounting Reference Date: 31 December
Auditors: None -- company is dormant

PART VIII RICHARD MOZLEY LIMITED

Name: Richard Mozley Limited

Number: 1364279

Registered Office: Riga House
380 Bristol Road
Gloucester
Gloucestershire GL2 5XY

Authorised Capital: (pound) 10,000 divided into 10,000 Ordinary
Shares of (pound)1 each

Issued Capital: 10,000 Ordinary Shares of (pound)1 each

Registered Shareholders and
Beneficial Owner of
issued capital: Axsia Group Limited

Directors: Peter G Michaluk
Lars McBride
Roger Gregory

Secretary: A Vyvyan

Accounting Reference Date: 31 December

Auditors: [have E&Y been appointed?]

SCHEDULE 3
WARRANTIES AND REPRESENTATIONS

1. INTERPRETATION

- 1.1 In this Schedule, where the context admits, references to the "Company" include each of the Material Subsidiaries.

2. WARRANTIES AND REPRESENTATIONS

Each of the Vendors in the case of the statements made in clause 2.1(A), (B) and (C) of Schedule 3 and the Principal Warrantors in the case of the other statements contained in this Schedule 3 hereby severally represent and warrant as set out herein to and for the benefit of the Purchaser that such statements will be correct and complete as of the date of the Disclosure Letter and will be correct and complete as of the Completion Date (as though made then and as though the Completion Date were substituted for the date of the Disclosure Letter throughout this Schedule 3 (Warranties and Representations)), except as fairly set forth in the Disclosure Letter to be delivered by the Vendors to the Purchaser not later than the 20th Business Day subsequent to the date of this Agreement, (as supplemented in the period from the date of delivery of the Disclosure Letter up to Completion). The Disclosure Letter shall be arranged in sections corresponding to the numbered and lettered paragraphs contained in Clause 2 of Schedule 3 (Warranties and Representations).

- 2.1 The Company and the Vendors. Each of the Vendors hereby severally represents and warrants that:

- A. Capacity. Such Vendor has full power and authority to enter into and perform this Agreement, may execute and deliver this Agreement and perform its obligations under this Agreement without requiring or obtaining the consent of its shareholders or of any other Person, Governmental Authority or Court, and this Agreement constitutes valid and binding obligations on such Vendor in accordance with its terms.
- B. Ownership of Sale Shares. Such Vendor is the registered and sole Beneficial Owner of the Sale Shares and/or Preference Shares set forth next to its name on Part I of Schedule I (The Vendors and the Company) (save as may be amended pursuant to Clause 10.14), free from any Encumbrances, and such Sale Shares and/or Preference Shares are in issue fully paid.
- C. Options, etc. No Person has the right (whether exercisable now or in the future and whether contingent or not) to call for the sale, transfer or conversion of any share or loan capital of the Company held by such Vendor pursuant to any option or other agreement (including conversion and exchange rights and rights of pre-emption).
- D. Liabilities Owing to or by Vendors. There is not outstanding any indebtedness or other liability (actual or contingent) owing by the Company to such Vendor or to

any Director or any Person connected with such Vendor, nor is there any indebtedness or other liability (actual or contingent) owing to the Company by any such Person, and no promise or representation has been made to such Vendor in connection with the Warranties or the Disclosure Letter in respect of which the Company or any of the Subsidiaries could reasonably be expected to be liable.

2.2 The Company's Constitution.

- A. Particulars of the Company. The particulars of the Company set out in Schedule 1 (The Vendors and the Company) are true and accurate.
- B. Share Capital. The Sale Shares and the Preference Shares comprise the whole of the issued and allotted share capital of the Company.
- C. Options, etc. No Person has the right (whether exercisable now or in the future and whether contingent or not) to call for the sale, transfer or conversion of any share or loan capital of the Company pursuant to any option or other agreement (including conversion and exchange rights and rights of pre-emption).
- D. Memorandum and Articles. The copies of the memorandum and articles of association of the Company which will be annexed to the Disclosure Letter will be true and complete in all respects and have embodied therein or annexed thereto a copy of every resolution or agreement as is required by law to be embodied in or annexed to them, and set out completely the rights and restrictions attaching to each class of authorised share capital of the Company.
- E. Company Resolutions. All resolutions of the Company or any class of its members which are required to be filed at Companies House have been so filed.

2.3 The Company's Investments.

- A. Particulars of the Material Subsidiaries. The particulars set out in Schedule 2 (The Subsidiaries) are true and complete, and the Company has no other Material subsidiary or subsidiary undertaking.
- B. Material Subsidiaries' Share Capital. Schedule 2 contains true and complete particulars of the authorised and issued share capital of the Material Subsidiaries, and the shares there shown as issued are in issue fully paid and are Beneficially Owned and registered as set out therein, in each case free from any Encumbrances.
- C. Options, etc. No Person has the right (whether exercisable now or in the future and whether contingent or not) to call for the allotment, issue, sale, transfer or conversion of any share or loan capital of any of the Material Subsidiaries under any option or other agreement (including conversion or exchange rights and rights of pre-emption).

- D. Material Subsidiaries' Memoranda and Articles. The copies of the memoranda and articles of association, or other organizational documents, of each of the Material Subsidiaries annexed to the Disclosure Letter are true and complete and have embodied therein or annexed thereto a copy of every Material resolution or agreement as is required by law to be embodied in or annexed to them, and set out completely the rights and restrictions attaching to each class of authorised share capital of each of the Material Subsidiaries.
- E. Material Subsidiaries' Resolutions. All resolutions of the Material Subsidiaries or any class of their members which are required to be filed at Companies House (or its equivalent in the country of incorporation when that is not England and Wales) have been so filed.
- F. Investments, Associations and Branches. The Company is not the registered holder or Beneficial Owner of, and has not agreed to acquire, any class of the share or other capital of any other company or corporation (whether incorporated in the United Kingdom or elsewhere) other than of the Subsidiaries or to an extent which is not material.

2.4 The Company and the Law.

- A. Compliance with Laws. The Company has conducted its business in compliance with all applicable Laws and Regulations of the United Kingdom and any relevant foreign country or authority except for such failures to comply as could not reasonably be expected to have a Material Adverse Effect on the Company. There is no Order of any Court, any Governmental Authority or other competent authority or agency of the United Kingdom or any foreign country outstanding against the Company that could reasonably be expected to have a Material Adverse Effect on the Company.
- B. Returns. Since the Balance Sheet Date the Company has substantially complied with the provisions of the Companies Acts, and all Material returns, particulars, resolutions and other documents required under any legislation to be delivered on behalf of the Company to the Registrar of Companies or to any other authority whatsoever have been properly made and delivered. All such documents delivered to the Registrar of Companies or to any other Governmental Authority whatsoever, whether or not required by law, were true and accurate in all Material respects when so delivered, and the Company has not received notification of the levy of any fine or penalty for non-compliance by the Company or any director of the Company that could reasonably be expected to have a Material Adverse Effect on the Company.
- C. Authorisations.
 - 1. The Company has not been notified or become aware of any failure to obtain any Material Authorisations necessary to enable the Company to carry on its business effectively in the places and in the manner in which

such business is now carried on, and all such Authorisations are in full force and effect and not limited in duration.

2. The Company has not been notified or become aware that the utilisation of any of the assets of the Company or the carrying on of any aspect of the Company's business or any business now being carried on at any of the Properties is in breach of any of the terms and conditions of any of such Material Authorisations, or that any such Material Authorisation could reasonably be expected to be suspended, cancelled or revoked.

D. Breach of Statutory Provisions. Neither the Company nor any of its directors, officers, or employees (during the course of their duties in relation to the Company) have committed, or omitted to do, any act or thing the commission or omission of which is, or could be, in contravention of any Law, Regulation or Order in the United Kingdom or elsewhere that is punishable by fine or other penalty and which could reasonably be expected to have a Material Adverse Effect on the Company, and no notice or communication has been received with respect to any alleged, actual or potential violation of or failure to comply with such Law, Regulation or Order which could reasonably be expected to have a Material Adverse Effect on the Company.

E. Litigation.

1. Neither the Company nor any of its directors, officers, or employees is engaged in or the subject of any litigation, arbitration, administrative or criminal proceedings whether as plaintiff, defendant or otherwise, that could reasonably be expected to have a Material Adverse Effect on the Company or the ability of the Purchaser to carry on the Company's business in the same manner and to the same extent as carried on prior to Completion.
2. No litigation or arbitration or administrative or criminal proceedings are pending or threatened by or against the Company or any such director, officer, or employee that could reasonably be expected to have a Material Adverse Effect on the Company or the ability of the Purchaser to carry on the Company's business in the same manner and to the same extent as carried on prior to Completion, and there are no facts or circumstances that could reasonably be expected to give rise to any such litigation or arbitration or administrative or criminal proceedings.
3. Neither the Company nor any of its directors, officers, or employees (during the course of their duties in relation to the Company) has been a party to any undertaking or assurance given to any Court or Governmental Authority with respect to any pending matter or is the subject of any injunction which is still in force, in each case that could reasonably be expected to have a Material Adverse Effect on the Company.

F. Fair Trading.

1. No agreement, practice or arrangement carried on by the Company or to which the Company is or has in the two years prior to the date of this Agreement been a party infringes any competition, restrictive trade practice, anti-trust, fair trading or consumer protection law or legislation applicable in any jurisdiction in which the Company has assets or carries on business or in which the activities of the Company may have an effect.
2. The Company has not given any assurance or undertaking to the Restrictive Practices Court or the Director General of Fair Trading or the Secretary of State for Trade and Industry, the European Commission, the EFTA Surveillance Authority or the Court of Justice of the European Communities or to any other Court or Governmental Authority and is not subject to or in default or contravention of any Law, Regulation or Order relating to the matters referred to in this Paragraph (F).

G. Pensions.

1. Apart from the liability to contribute to the Axsia Scheme and to personal pension schemes at rates and in respect of persons disclosed in the Disclosure Letter the Company has no obligation to provide or contribute to the provision of any relevant benefit (as defined in ICTA 1988, s 612) or like benefit for or in respect of any of the employees and officers or former employees and former officers of the Company.
2. Complete and accurate particulars of the Axsia Scheme (in the form of copies of any documents issued by the Company to its employees and officers or former employees and former officers and, in the case of the Axsia Scheme, of the current trust deed and rules of the Axsia Scheme and of the personal pension schemes to which the Company contributes and of the Company's liability to contribute to each of them) will be set out in the Disclosure Letter.
3. All amounts that have fallen due to the Axsia Scheme and to any personal pension scheme from the Company in respect of any of the employees or former employees or officers or former officers of the Company have been paid on or before the latest date allowed by law.
4. The Axsia Scheme provides only money purchase benefits or benefits payable on death in service or on disability that are fully and adequately insured.

2.5 Taxation Matters.

A. General Taxation Matters.

1. Residence. The Company is resident, for taxation purposes, only in the United Kingdom.
2. Payment of Tax. The Company has duly and punctually paid all taxation which it has become liable to pay and is under no liability to pay any penalty or interest in connection with any claim for taxation and has not paid any tax which it was and is not properly due to pay. None of the Company's tax returns is disputed by the Inland Revenue or any other Governmental Authority, and there are no facts or circumstances that could reasonably be expected to give rise to such a dispute.
3. Payments under deduction. All payments by the Company to any Person that ought to have been made under deduction of tax have been so made, and the Company has (if required by Law or Regulation to do so) provided certificates of deduction to such Person and accounted to the Inland Revenue for the tax so deducted.

B. Close Company Matters. The Company is not a close company.

C. Clearances. The Company has obtained all clearances under any enactment relating to taxation for which the Vendors considered it prudent to apply. The facts and circumstances relevant to the applications for such clearances were disclosed in such applications. The Completion of this Agreement and implementation of the transactions contemplated hereby will not give rise to the re-opening or withdrawal of any clearances previously obtained in relation to any taxation matters.

D. Taxation of Employees and Agents.

1. PAYE. The Company has operated the Pay As You Earn system as required by Law or Regulation in connection with both employee income tax deductions and national insurance contributions.
2. Benefits for Employees. The Company has not issued any shares in the circumstances described in Section 77(1) and has complied with Section 85 of the Finance Act 1988.
3. Slave Companies. Any payment made to or for the direct or indirect benefit of any Person who is or could reasonably be expected to be regarded by any Governmental Authority with jurisdiction over taxation matters as an employee of the Company has been and is made to such Person directly and has not been and is not made to any company or other entity associated with that Person.

E. Stamp Duties.

1. Stamp Duty. The Company has duly paid or has procured to be paid all stamp duty on documents to which it is a party or in which it is interested and which are liable to stamp duty.
2. Stamp Duty Reserve Tax. The Company has made all returns and paid all stamp duty reserve tax in respect of any transaction in securities to which it has been a party or in respect of which it is liable to account for stamp duty reserve tax.

F. Value Added Tax.

The Company has complied with all statutory provisions and regulations relating to value added tax and has duly paid or provided for all amounts of value added tax for which the Company is liable.

2.6 The Company's Solvency.

- A. Winding Up. No order has been made, petition presented or resolution passed for the winding up of the Company, and no meeting has been convened for the purpose of winding up the Company. The Company has not been a party to any transaction that could be avoided in a winding up.
- B. Administration and Receivership. No steps have been taken for the appointment of an administrator or receiver (including an administrative receiver) of all or any part of the Company's assets.
- C. Compositions. The Company has not made or proposed any arrangement or composition with its creditors or any class of its creditors.
- D. Insolvency. The Company is not insolvent, is not unable to pay its debts within the meaning of the insolvency legislation applicable to the Company and has not stopped paying its debts as they fall due.
- E. Unsatisfied Judgments. No distress, execution or other process has been levied against the Company or action taken to repossess goods in the Company's possession that has not been satisfied in full. No unsatisfied judgment is outstanding against the Company.
- F. Floating Charges. No floating charge created by the Company has crystallised, and there are no facts or circumstances that could reasonably be expected to cause such a floating charge to crystallise.
- G. Analogous Events. No event analogous to any of the foregoing has occurred in or outside England.

2.7 The Company's Records and Accounts.

The Vendors hereby represent and warrant that:

- A. Books and records. All accounts, books, ledgers, financial and other records of whatsoever kind ("Records") of the Company:
1. are in the possession and control of the Company and contain true, complete and accurate records in all Material respects of all matters required by Law to be entered therein; and
 2. have been fully, properly and accurately maintained in all Material respects on a consistent basis.
- No notice or allegation that any of the Records is incorrect or should be rectified has been received.
- B. Accounts. None of the Vendors has Knowledge of any errors or omissions in the Audited Accounts or any matters which make the Audited Accounts in any way misleading:
- C. Management Accounts. The cumulative profits, assets and liabilities of the Company stated in the Management Accounts have been fairly presented in accordance with accounting principles generally accepted in the United Kingdom and applied consistently with those utilised in the preparation of the Audited Accounts.

2.8 The Company's Business and the Effect of Sale.

- A. Business Since the Balance Sheet Date. Since the Balance Sheet Date:
1. save for disposals for fair value in the ordinary course of its business, the Company has not disposed of any Material assets included in the Audited Accounts;
 2. the Company has not acquired any Material assets;
 3. the Company has not given, created or allowed, or entered into any agreement or commitment to give, create or allow, any Material Encumbrance over or in respect of the whole or any part of the Company's assets (whether owned as of the Balance Sheet or thereafter acquired), undertaking, goodwill or uncalled capital;
 4. the Company has not entered into, or agreed to enter into, any commitment to acquire or dispose of on capital account any asset of a value in excess of (pound) 150,000 or any commitment involving expenditure by it on capital account;

5. no share or loan capital has been agreed to be issued by the Company; and
 6. no distribution of capital or income has been declared, made or paid in respect of any share capital of the Company (other than distributions made by wholly owned Subsidiaries to the Company or to another wholly owned Subsidiary), and (excluding fluctuations in overdrawn current accounts with bankers) no loan or share capital of the Company has been repaid in whole or part or has become liable to be repaid in whole or part.
- B. Commission. No one is entitled to receive from the Company any Material finder's fee, brokerage, or other commission in connection with this Agreement or the sale and purchase of shares in the Company.
- C. Consequence of Share Acquisition by the Purchaser. The acquisition of the Sale Shares by the Purchaser or compliance with the terms of this Agreement will not:
1. result in any Material indebtedness of the Company becoming due or capable of being declared due and payable prior to its stated maturity;
 2. result in a breach of, or constitute a default under, any Order of any Court or Governmental Authority by which the Company is bound or subject which could reasonably be expected to result in a Material Adverse Effect on the Company; or
 3. result in a breach of, or constitute a default under the terms, conditions or provisions of, any agreement, understanding, arrangement or instrument (including any of the Company's contracts) which could reasonably be expected to result in a Material Adverse Effect on the Company.
- D. Grants. The Company has not applied for or received any financial assistance from any Governmental Authority.
- E. Insurances.
1. Particulars of Material insurance policies (including the limit and basis of cover under each policy and the amount of the applicable excess) in which the Company has an interest (the "Company's Insurances") will be given in the Disclosure Letter.
 2. All the Company's Insurances are in full force and effect and will be maintained in full force without alteration pending Completion.
- F. Trading Name. The Company does not trade under any name other than its corporate name and any other name given in the Disclosure Letter.

2.9 The Company's Assets.

- A. Assets and Charges.
 - 1. No Material asset is shared by the Company with any other Person, and the Company does not depend for its business upon any assets, premises, facilities or services owned or supplied by any of the Vendors or any Person connected with any of the Vendors.
 - 2. No charge in favour of the Company is void or voidable for want of registration.
- B. Debts. The Company has not factored or discounted any of its debts or other receivables or agreed to do so.
- C. [Not used]
- D. [Not used]
- E. Intellectual Property Rights.
 - 1. All the Intellectual Property rights owned or used by the Company are valid and enforceable and are owned by or licensed to it, and nothing has been done, omitted or permitted whereby any of the Intellectual Property rights has ceased or could reasonably be expected to cease to be valid and enforceable.
 - 2. None of the processes or products of the Company infringes any Intellectual Property or any right of any other Person relating to Intellectual Property or involves the unlicensed use of confidential information disclosed to the Company by any Person in circumstances that could reasonably be expected to entitle that Person to make a claim against the Company.
 - 3. None of the Listed Intellectual Property is being used, claimed, applied for, opposed or attacked by any Person.
 - 4. None of the Listed Intellectual Property or any rights relating to it is being infringed by any Person.
 - 5. There are no outstanding claims against the Company for infringement of any Intellectual Property or of any rights relating to it used (or which have been used) by the Company and during the last three years no such claims have been settled by the giving of any undertakings which remain in force. The Company has not received any actual or threatened claim that any of the Listed Intellectual Property is invalid or infringes the rights of any Person.

6. Confidential information and know-how used by the Company is kept strictly confidential. The Company has not disclosed (except in the ordinary course of its business) any of its confidential information, know-how, trade secrets or list of customers to any other Person.
7. The Listed Intellectual Property Agreements are the Material agreements in respect of Intellectual Property to which the Company is a party. Each of the Listed Intellectual Property Agreements is valid and binding, and the Company is not in breach of any of the provisions of such agreements.
8. None of the Intellectual Property owned or used by the Company is subject to compulsory licensing or the granting of any licences of right nor, to the Knowledge of the Vendors, will it become so by operation of law.

F. [Not used]

G. Properties.

1. Interest in Properties

- a. The particulars of the Properties shown in Schedule 4 (Properties) are true and correct in all Material respects. Except as there shown, the Company has no other interest in land and does not occupy any other property and has not entered into any agreement to acquire or dispose of any land or premises or any interest therein which has not been completed.
- b. The Company is solely legally and beneficially entitled to and has good and marketable title to and exclusive occupation of the Owned Properties.
- c. The Company owns the Owned Properties free from any mortgage or charge (whether legal or equitable, fixed or floating), Encumbrance, lease, sub-lease, tenancy, licence or right of occupation, rent charge, exception, reservation, easement, quasi easement or privilege (or agreement for any of the same) in favour of a third party.
- d. The leases, sub-leases, tenancies or agreements for any of the same under which the Company holds the Leased Properties are valid and subsisting in all Material respects against all Persons, including any Person in whom any superior estate or interest is vested.
- e. There are appurtenant to each Property all Material rights and easements necessary for its current use and enjoyment (without restriction as to time or otherwise) and the access for each of the

Properties is over roads adopted by local Governmental Authorities and maintained at public expense.

- f. The Company has not entered into any Material positive covenants or personal obligations, nor does it have any Material personal rights under which it has any subsisting liability (whether actual or contingent).

2. Matters affecting Properties.

- a. None of the Properties is used for any purpose other than the use specified for each Property in Schedule 4 (Particulars of Properties).
- b. Where the interest of the Company in a Property is leasehold, there is no right for the landlord to terminate the lease except in the event of non-payment of rent or other breach of covenant by the Company.

2.10 The Company's Contracts.

- A. The Company's Contracts. Except as could not reasonably be expected to result in a Material Adverse Effect on the Company no notice of termination of any of the Company's contracts has been received or served by the Company, and there are no grounds for determination, rescission, avoidance or repudiation of, any such contracts.
- B. Contractual Arrangements.
 - 1. All of the Company's Material contracts will be disclosed to the Purchaser in the Disclosure Letter or in the course of the Purchaser's due diligence investigations.
 - 2. The copies of the Company's contracts provided to the Purchaser in the course of its due diligence activities will be complete and accurate.
- C. Substantial or significant contracts. No contract, agreement, transaction, obligation, commitment, understanding, arrangement or liability entered into by the Company and now outstanding or unperformed involves any of the following:
 - 1. save in the ordinary course of business, obligations on the part of the Company which will cause or could reasonably be expected to cause the Company to incur expenditure or an obligation to pay money in excess of (pound)150,000;
 - 2. obligations on the part of the Company to purchase any specified minimum quantity or any specified minimum percentage of its total requirement for any of its stock in trade from any one supplier;

3. the supply by the Company of products or services to any one customer such that the value of such supplies exceeds or could reasonably be expected to exceed 5 per cent of the total turnover of the Company in the financial year ending December 31, 2000 or in any subsequent year.
- D. [Not used].
- E. Sureties. None of the Vendors nor any third party have given any guarantee of or security for, any overdraft loan, loan facility or off-balance sheet financing granted to the Company, nor has the Company given any guarantee of or security for any overdraft loan, loan facility or off-balance sheet financing granted to any of the Vendors. There is not now outstanding in respect of the Company any guarantee or warranty or agreement for indemnity or for suretyship given by or for the accommodation of the Company or in respect of the Company's business.
- F. Powers of Attorney. No powers of attorney given by the Company (other than to the holder of an Encumbrance solely to facilitate its enforcement) are now in force. No Person, as agent or otherwise, is entitled or authorised to bind or commit the Company to any obligation not in the ordinary course of the Company's business, and the Vendors have no Knowledge of any Person purporting to do so.
- G. Insider Contracts.
1. There is not outstanding, and there has not at any time since the Balance Sheet Date been outstanding, any Material agreement or arrangement to which the Company is a party and in which any of the following Persons is or has been interested, whether directly or indirectly:
 - a. any of the Vendors;
 - b. any Person beneficially interested in the Company's share capital;
 - c. any Director; or
 - d. any Person connected with any of them.
 2. The Company is not a party to, nor have its profits or financial position during such period been affected by, any Material agreement or arrangement which is not entirely of an arm's length nature.
 3. All costs incurred by the Company have been charged to the Company and not borne by any of the Vendors.
- H. Debts. There are no Material debts owing by or to the Company other than debts which have arisen in the ordinary course of business, nor has the Company lent any Material amount of money which has not been repaid.

- I. Guarantees. The Company is not a party to, nor has it given any guarantee, suretyship, comfort letter or any other obligation to provide funds or take action in the event of default in the payment of any indebtedness of any other Person or in the performance of any obligation of any other Person.
- J. Tenders, etc. No offer, tender, or the like is outstanding which is capable of being converted into a Material obligation of the Company by an acceptance or other act of some other Person.

2.11 The Company and its Bankers.

- A. Facilities. Full and accurate details of all Material overdrafts, loans or other financial facilities outstanding or available to the Company will be given in the Disclosure Letter. True and correct copies of all documents relating thereto will be provided to the Purchaser, and none of the Vendors nor the Company have done anything whereby the continuance of any such facilities in full force and effect could reasonably be expected to be affected or prejudiced.
- B. Off-Balance Sheet Financing. The Company has not engaged in any borrowing or financing not required to be reflected in the Audited Accounts.
- C. Bank Accounts. Full and accurate particulars of all the bank and deposit accounts of the Company and of the credit or debit balances on such accounts as at a date (the "Statement Date") not more than seven days before the date of delivery of the Disclosure Letter will be given in the Disclosure Letter. From the Statement Date to the Completion Date there will be no payments out of any such accounts except for routine payments in the ordinary course of the Company's business, and the balances on such accounts as at the date of delivery of the Disclosure Letter and as at the Completion Date will not be substantially different from the balances shown as at the Statement Date.

2.12 The Company and its Employees.

- A. Directors. Schedules 1 and 2 show the full names and offices held by each Person who is a director of the Company. No other Person is a director or shadow director of the Company.
- B. Particulars of Employees.
 - 1. Annexed to the Disclosure Letter will be a list of all individuals (the "Employees") employed by the Company at the date of this Agreement. Such list indicates those Employees who are party to a contract of service with the Company. Notice of termination will not be given by the Company to any of the Employees on or before Completion.
 - 2. The particulars shown in the list annexed to the Disclosure Letter will show remuneration payable and other benefits which the Company is bound to

provide (whether now or in the future) to each category of the Employees at Completion or any Person connected with any such Person.

3. There are no subsisting contracts for the provision by any Person of any consultancy services to the Company.
 4. None of the Employees is under notice of dismissal or has any outstanding dispute with the Company in connection with or arising from his employment that could reasonably be expected to have a Material Adverse Effect on the Company, nor is there any Material liability outstanding to any Employee or former employee except for remuneration or other benefits accruing due, and no such remuneration or other benefit which has fallen due for payment has not been paid.
 5. There are no Material loans owed by any of the Employees to the Company.
 6. Since the date of this Agreement, no change outside the ordinary course of business has been made in (i) the rate of remuneration, or the emoluments or pension benefits or other contractual benefits, of any officer of the Company or any of the Employees or (ii) the terms of engagement of any such officer or any of the Employees.
 7. There is no Material outstanding undischarged liability to pay to any Governmental Authority in any jurisdiction any contribution, taxation or other duty arising in connection with the employment or engagement of any of the Employees.
- C. Service Contracts. There is not outstanding any contract of service between the Company and any of its directors, officers or employees (i) which is not terminable by the Company without compensation (other than any compensation payable by statute) on not more than three months' notice given at any time or (ii) pursuant to which any Employee will become entitled by virtue of his contract of service to any Material enhancement in or improvement to his remuneration, benefits or terms and conditions of service only by reason of completion of the sale and purchase of the Sale Shares under or pursuant to this Agreement.
- D. Disputes with Employees. There is no:
1. pending or threatened claim by any Employee or former employee of the Company or any dispute outstanding with any Employee or former employee or with any unions or any other body representing all or any of them, in each case in relation to their employment by the Company and that could reasonably be expected to have a Material Adverse Effect on the Company, and there are no facts or circumstances that could reasonably be expected to give rise to any such dispute;

2. industrial action involving any Employee or former employee, whether official or unofficial, currently pending or threatened that could reasonably be expected to have a Material Adverse Effect on the Company; or
3. industrial relations matter which has been referred to ACAS or any similar Governmental Authority in the applicable jurisdiction for advice, conciliation or arbitration that could reasonably be expected to have a Material Adverse Effect on the Company.

2.13 Excluded Items. All written information provided to the Purchaser pursuant to Sub-Clause 6.2 (Excluded Items) of the Agreement with respect to the Excluded Items shall be true and correct in all respects.

SCHEDULE 4
PARTICULARS OF PROPERTIES
PART I
OWNED PROPERTIES

PART II
LEASED PROPERTIES

NOTE - BY AN EXCHANGE OF E-MAILS BETWEEN LOVELLS AND VINSON & ELKINS IT WAS
AGREED THAT DETAILS FOR SCHEDULE 4 WOULD BE PROVIDED AS SOON AS POSSIBLE AND
THAT THE WARRANTIES IN SCHEDULE 3 WOULD APPLY AS IF SUCH DETAILS HAD ALWAYS BEEN
INCLUDED IN THE AGREEMENT.

SCHEDULE 5
PRINCIPAL WARRANTORS' WARRANTY SCHEDULE

1. NAME OF VENDOR -----	2. WARRANTY PROPORTION ----- (%)	3. WARRANTY LIABILITY CAP ----- (POUND)
Braydeal Ltd.	8.44	261,640
Sloane Investments Ltd	8.44	261,640
SUK Bof III Nominees Ltd	51.89(1)	1,608,590(2)
Intermediate Capital Group Plc	2.95(2)	91,450(2)
Meggitt Properties Plc	12.66	392,460
Sloane Investments Ltd.	2.56	79,360
Lars McBride	2.56	79,360
Peter G Michaluk	4.00	124,000
Ian S Harding	2.00	62,000
Jonathan C Moseley	2.50	77,500
Raymond G Keating	2.00	62,000

-
- (1) If the ICG Option is not exercised, SUK BOF III Nominees Ltd shall have a Warranty Proportion of 54.84% and Intermediate Capital Group Plc shall not be a Principal Warrantor.
- (2) If the ICG Option is not exercised SUK BOF III Nominees Ltd shall have a Warranty Liability Cap of pounds 1,700,040, and Intermediate Capital Group Plc will not be a Principal Warrantor.

SIGNED for and on behalf
of Alpinvest Mezzanine BV
by Tom Bartlam

/s/ Tom Bartlam

SIGNED for and on behalf
of Intermediate Capital Group Plc
by Tom Bartlam

/s/ Tom Bartlam

SIGNED for and on behalf
of Intermediate Capital Limited
by Tom Bartlam

/s/ Tom Bartlam

SIGNED for and on behalf
of Braydeal Limited
by J.K.L. McBride

/s/ J.K.L. McBride

SIGNED for and on behalf
of Sloane Investments Limited
by Ian Coombs-Goodfellow
(Director)

/s/ Ian Coombs-Goodfellow

SIGNED for and on behalf
of Suk Bof III Nominees Limited
by M. Enevoldsen (Director) and

/s/ M. Enevoldsen

J. Van Katwyk (Director)

/s/ J. Van Katwyk

SIGNED for and on behalf
of Meggitt Properties Plc
by Philip E. Green

/s/ Philip E. Green

SIGNED for and on behalf
of Sloane Investments Limited
by Ian Coombs-Goodfellow
(Director)

/s/ Ian Coombs-Goodfellow

SIGNED by Lars McBride
in the presence of:

Lynne Sampson
6 Penner Close, Wimbledon SW19 6QA

/s/ Lars McBride

SIGNED by Peter Gregory Michaluk
in the presence of:

Ann L. Michaluk

/s/ Peter Gregory Michaluk

SIGNED by Ian Stanley Harding

in the presence of:

Clare Checkland

/s/ Ian Stanley Harding

9 Poplar Walk

Herne Hill London SE24 0BX

SIGNED by Jonathan Charles Moseley

in the presence of:

L. J. Caple

/s/ Jonathan Charles Moseley

SIGNED by Raymond Gerald Keating

in the presence of:

Linda J Keating

/s/ Raymond Gerald Keating

SIGNED for NATCO Group Inc.

by

/s/ Mike Mayer

Mike Mayer, Senior Vice President
and Chief Financial Officer

</TEXT>

</DOCUMENT>

[VINSON & ELKINS LETTERHEAD]

16 March 2001

Lovells
65 Holborn Viaduct
London EC1A 2DY

Re: PROJECT STARFISH

Dear Sirs

We refer to the agreement dated 25 January 2001 (the "Agreement") between our client Natco Group Inc and your clients the holders of the entire issued share capital of Axsia Group Limited ("Axsia"), providing for the purchase by our clients of the entire issued share capital of Axsia. Words defined in the Agreement shall have the same meanings in this letter.

Please accept this letter as a formal direction from the Purchaser to the Vendors to transfer the shares of Axsia into the name of Starfish Acquisition Limited, a new wholly owned subsidiary of the Purchaser.

We write to confirm that agreement has been reached between our respective clients to the effect that the overall price for the Sale Shares shall be reduced from pound sterling 31,500,000 to pound sterling 31,180,000, the reduction to be applied rateably to the "A" Ordinary, "B" Ordinary, and "C" Ordinary Shares of Axsia. Clause 3 of the Agreement is amended accordingly.

In all other respects the Agreement remains unchanged. Kindly confirm on behalf of the Vendors their agreement to this amendment.

Yours faithfully,

/s/ Lawrence Ziman

To: Vinson & Elkins, on behalf of Natco Group Inc

We hereby confirm, on behalf of the Vendors (as defined) their agreement with the amendment to the Sale and Purchase Agreement dated 25 January 2001 as set out in your above letter.

Yours faithfully,

/s/ James Wilson

Lovells

</TEXT>

</DOCUMENT>

LOAN AGREEMENT

(\$35,000,000 U.S. REVOLVING LOAN FACILITY,
\$10,000,000 CANADIAN REVOLVING LOAN FACILITY,
\$5,000,000 U.K. REVOLVING LOAN FACILITY

AND

(\$50,000,000 TERM LOAN FACILITY)

DATED AS OF MARCH 16, 2001

AMONG

NATCO GROUP INC.,
AS U.S. BORROWER,

NATCO CANADA, LTD.,
AS CANADIAN BORROWER,

AXSIA GROUP LIMITED,
AS U.K. BORROWER,

THE CHASE MANHATTAN BANK,
AS U.S. AGENT AND AS A U.S. LENDER,

ROYAL BANK OF CANADA,
AS CANADIAN AGENT AND AS A CANADIAN LENDER,

CHASE MANHATTAN INTERNATIONAL LIMITED,
AS U.K. AGENT AND AS A U.K. LENDER,

BANK ONE, NA (MAIN OFFICE CHICAGO ILLINOIS),
AS SYNDICATIONS AGENT,

WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION,
AS DOCUMENTATION AGENT,

JP MORGAN, A DIVISION OF CHASE SECURITIES INC.,
AS SOLE BOOKRUNNER AND LEAD ARRANGER

AND

THE OTHER LENDERS NOW OR HEREAFTER
PARTIES HERETO

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LOAN AGREEMENT

THIS LOAN AGREEMENT is made and entered into as of March 16, 2001 (the "Effective Date"), by and among NATCO GROUP INC., a Delaware corporation (the "U.S. Borrower"); NATCO CANADA, LTD., a corporation formed under the laws of the Province of Ontario (the "Canadian Borrower"); AXSIA GROUP LIMITED, a company incorporated in England and Wales under the Companies Act of the United Kingdom (the "U.K. Borrower"); each of the lenders which is or may from time to time become a party hereto (individually, a "Lender" and, collectively, the "Lenders", which terms shall include U.S. Lenders, Canadian Lenders and U.K. Lenders); THE CHASE MANHATTAN BANK ("Chase"), a New York banking corporation, as agent for the U.S. Lenders (in such capacity, together with its successors in such capacity, the "U.S. Agent"); ROYAL BANK OF CANADA ("RBC"), as agent for the Canadian Lenders (in such capacity, together with its successors in such capacity, the "Canadian Agent"); CHASE MANHATTAN INTERNATIONAL LIMITED ("Chase U.K."), as agent for the U.K. Lenders (in such capacity, together with its successors in such capacity, the "U.K. Agent"); BANK ONE, NA (MAIN OFFICE CHICAGO ILLINOIS), as Syndications Agent; WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION, as Documentation Agent, and JP MORGAN, A DIVISION OF CHASE SECURITIES, as Sole Bookrunner and Lead Arranger.

The parties hereto agree as follows:

1. Definitions.

1.1 Certain Defined Terms.

In this Agreement, terms defined above shall have the meanings ascribed to them above. Unless a particular term, word or phrase is otherwise defined or the context otherwise requires, capitalized terms, words and phrases used herein or in the Loan Documents (as hereinafter defined) have the following meanings (all definitions that are defined in this Agreement or in the Loan Documents in the singular have the same meanings when used in the plural and vice versa):

Acceptance Fee means the fee payable in Canadian Dollars to each Canadian Lender in respect of the Bankers' Acceptances accepted by such Canadian Lender computed in accordance with Section 2.3(c).

Accounts, Equipment, General Intangibles and Inventory shall have the respective meanings assigned to them in the Uniform Commercial Code enacted in the State of Texas as Sections 1 through 11 of the Texas Business and Commerce Code, in force on the Effective Date.

Additional Collateral shall have the meaning ascribed to such term in Section 7.8 hereof.

Additional Collateral Event shall have the meaning ascribed to such term in Section 7.8 hereof.

Additional Interest means the aggregate of all amounts accrued or paid pursuant to the Notes or any of the other Loan Documents (other than interest on the Notes at the Stated Rate and any

Acceptance Fee) which, under applicable laws, are or may be deemed to constitute interest on the indebtedness evidenced by the Notes or any other amounts owing under any Loan Document.

Adjusted LIBOR means, with respect to each Interest Period applicable to a LIBOR Borrowing, a rate per annum equal to the quotient, expressed as a percentage, of (a) LIBOR with respect to such Interest Period divided by (b) 1.0000 minus the Eurodollar Reserve Requirement in effect on the first day of such Interest Period.

Affiliate means any Person controlling, controlled by or under common control with any other Person. For purposes of this definition, "control" (including "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or otherwise.

Agents means U.S. Agent, Canadian Agent and U.K. Agent, collectively.

Agreement means this Loan Agreement, as it may from time to time be amended, modified, restated or supplemented.

Amounts Recoverable on Contracts means revenues in excess of billings on open contracts, as determined in accordance with GAAP.

Annual Financial Statements means the annual financial statements of a Person, including all notes thereto, which statements shall include a balance sheet as of the end of the fiscal year relating thereto and an income statement and a statement of cash flows for such fiscal year, all setting forth in comparative form the corresponding figures from the previous fiscal year, all prepared in conformity with GAAP in all material respects, and accompanied by the opinion of independent certified public accountants of recognized national standing, which shall state that such financial statements present fairly in all material respects the financial position of such Person and, if such Person has any Subsidiaries, its consolidated Subsidiaries as of the date thereof and the results of its operations for the period covered thereby in conformity with GAAP. As to U.S. Borrower only, Annual Financial Statements shall also include unaudited consolidating financial statements for U.S. Borrower and its Subsidiaries, each in Proper Form, certified by the chief financial officer or other authorized officer of U.S. Borrower as presenting fairly in all material respects the consolidating financial position of U.S. Borrower and its Subsidiaries. With respect to the Annual Financial Statements for U.K. Borrower for the fiscal year ended December 31, 2000 required by Section 7.2 hereof, the references to "GAAP" in this definition shall be deemed to mean United Kingdom generally accepted accounting principles.

Applicable BA Discount Rate means, as applicable to a Bankers' Acceptance being purchased by any Canadian Lender on any day, the percentage discount rate (expressed to two decimal places and rounded upward, if necessary, to the nearest 1/100th of 1%) quoted by the Canadian Agent as that at which the Canadian Agent would, in accordance with normal practice, at or about 12:00 noon (Toronto, Ontario time), on such day, be prepared to purchase Bankers' Acceptances in an amount and having a maturity date comparable to the amount and maturity date of such Bankers' Acceptances.

Applicable Canadian Pension Legislation means, at any time, any federal or provincial pension legislation then applicable to the Canadian Borrower, including the Employment Pension Plans Act (Alberta), the Pension Benefits Act (Ontario) and the Income Tax Act (Canada), including all regulations made thereunder, and all rules, regulations, rulings and interpretations made or issued by any Governmental Authority having or asserting jurisdiction in respect thereof.

Applications means all applications and agreements for Letters of Credit, or similar instruments or agreements, in Proper Form, now or hereafter executed by any Person in connection with any Letter of Credit now or hereafter issued or to be issued under the terms hereof at the request of any Person.

Assessment Rate means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the U.S. Agent to be representative of the cost of such insurance to the applicable Lenders.

Asset Coverage Ratio means, as of any day, the ratio of (a) the sum of the accounts receivable (net of any reserves), inventory (net of any reserves) and property, plant and equipment, (net of accumulated depreciation and amortization), of the U.S. Borrower and its Subsidiaries, on a consolidated basis, as of such day to (b) Borrowed Money Indebtedness of U.S. Borrower and its Subsidiaries, on a consolidated basis, as of such day (exclusive of the categories of Borrowed Money Indebtedness, other than obligations in respect of bankers' acceptances, described in clauses (vii), (viii) and (ix) of the definition of "Borrowed Money Indebtedness" set forth in this Section 1.1).

Assignment and Acceptance shall have the meaning ascribed to such term in Section 11.6(b).

Availability Period means, for each Lender, the period from and including the Effective Date to (but not including) the Termination Date.

BA Discount Proceeds means in respect of any Bankers' Acceptance being purchased by a Canadian Lender on any day under Section 2.3, an amount (rounded to the nearest whole Canadian cent, and with one-half of one Canadian cent being rounded up) calculated on such day by multiplying:

- (A) the face amount of such Bankers' Acceptance; by
- (B) the quotient equal to one divided by the sum of one plus the product of:
 - (i) the Applicable BA Discount Rate (expressed as a decimal) applicable to such Bankers' Acceptance; and

(ii) a fraction, the numerator of which is the number of days remaining in the term of such Bankers' Acceptance and the denominator of which is 365;

with such quotient being rounded up or down to the nearest fifth decimal place and .000005 being rounded up.

Bankers' Acceptance or BA means a bill of exchange denominated in Canadian Dollars drawn by the Canadian Borrower on and accepted by a Canadian Lender pursuant to Section 2.3 hereof.

Bankers' Acceptance Liabilities means, at any time and in respect of any Bankers' Acceptance, the face amount thereof if still outstanding and unpaid or, following maturity and payment thereof, the aggregate unpaid amount of all Reimbursement Obligations at that time due and payable in respect of the payment of such Bankers' Acceptance upon maturity.

Bankers' Acceptance Notice has the meaning specified in Section 2.3(a).

Bankruptcy Code means (i) the United States Bankruptcy Code, (ii) the Bankruptcy and Insolvency Act (Canada) and (iii) the Companies' Creditors Arrangement Act (Canada), as the same may be amended and together with any successor statutes.

Base CD Rate means the sum of (a) the Three-Month Secondary CD Rate multiplied by the CD Reserve Rate plus (b) the Assessment Rate.

Base Rate means, for any day, a rate per annum equal to the lesser of (a) the then applicable Margin Percentage from time to time in effect plus the greatest of (1) the applicable Prime Rate for that day, (2) the Base CD Rate for that day plus 1% and (3) the Federal Funds Rate for that day plus 1/2 of 1% or (b) the Ceiling Rate. If for any reason any applicable Agent shall have determined (which determination shall be conclusive and binding, absent manifest error) that it is unable to ascertain either or both of the Federal Funds Rate or the Base CD Rate for any reason, including, without limitation, the inability or failure of Agent to obtain sufficient quotations in accordance with the terms hereof, the Base Rate shall, until the circumstances giving rise to such inability no longer exist, be calculated without regard to that particular component.

Base Rate Borrowing means that portion of the principal balance of the Loans at any time bearing interest at the Base Rate.

Borrowed Money Indebtedness means, with respect to any Person, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments evidencing borrowed money, (iii) all obligations of such Person under conditional sale or other title retention agreements relating to Property purchased by such Person, (iv) all obligations of such Person issued or assumed as the deferred purchase price of Property or services (excluding obligations of such Person to creditors for raw materials, inventory, services and supplies and deferred payments for services to employees and former employees incurred in the ordinary course of such Person's business), (v) all lease obligations of such Person which have been capitalized on the balance sheet of such Person in accordance with GAAP,

(vi) all obligations of others secured by any Lien on Property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, equal to the lesser of the amount of such obligation or the fair market value of such Property, (vii) Interest Rate Risk Indebtedness of such Person, (viii) all obligations of such Person in respect of outstanding letters of credit issued for the account of such Person (or for which such Person is primarily liable) or bankers' acceptances drawn by such Person and (ix) all guarantees of such Person.

Borrowers means U.S. Borrower, Canadian Borrower and U.K. Borrower, collectively.

Borrowing Base Certificate shall mean a certificate, duly executed by the chief executive officer, chief financial officer, treasurer or controller of Borrowers, appropriately completed and in substantially the form of Exhibit I hereto. Each Borrowing Base Certificate shall be effective only as accepted by Agents (and with such revisions, if any, as Agents may reasonably require as a condition to such acceptance).

Business Day means any day other than a day on which commercial banks are authorized or required to close in Houston, Texas, Toronto, Ontario or London, England.

Calculation Date means the last Business Day of each month.

Canadian Borrowing Base means, as at any date, the amount of the Canadian Borrowing Base shown on the Borrowing Base Certificate then most recently delivered pursuant to Section 7.2(f) hereof, determined by calculating the amount equal to:

- (i) the sum of (x) 80% of the aggregate amount of all Eligible Accounts of the Canadian Borrower and its Subsidiaries at said date which are not progress payments and (y) the lesser of (1) 70% of the aggregate amount of all Eligible Accounts of the Canadian Borrower and its Subsidiaries at said date which are progress payments or (2) \$2,000,000, plus
- (ii) the sum of (x) 25% of that portion of Eligible Inventory of the Canadian Borrower and its Subsidiaries at said date (determined at the lower of cost or market on a consistent basis) which consists of work-in-process relating to projects for customers that are not account debtors with respect to any Accounts owing to any Borrower and any of their Subsidiaries which are not Eligible Accounts and (y) 50% of the aggregate amount of all other Eligible Inventory of the Canadian Borrower and its Subsidiaries at said date (determined at the lower of cost or market on a consistent basis); provided that the amount calculated pursuant to this clause (ii) shall not exceed 50% of the Canadian Borrowing Base.

In the absence of a current Borrowing Base Certificate, Canadian Agent shall determine the Canadian Borrowing Base from time to time in its reasonable discretion, taking into account all information reasonably available to it, and the Canadian Borrowing Base from time to time so determined shall be the Canadian Borrowing Base for all purposes of this Agreement until a current Borrowing Base Certificate, in Proper Form, is furnished to and accepted by Canadian Agent. For

purposes of calculating the Canadian Borrowing Base, all amounts or values expressed in Canadian Dollars shall be converted into Dollars at the Exchange Rate in effect as of the date of the applicable Borrowing Base Certificate.

Canadian Commitment means, as to any Canadian Lender, the obligation, if any, of such Canadian Lender to make Canadian Revolving Loans, incur or participate in Letter of Credit Liabilities relating to Canadian Letters of Credit and accept and purchase Bankers' Acceptances in an aggregate principal amount at any one time outstanding up to (but not exceeding) the amount, if any, set forth opposite such Canadian Lender's name on the signature pages hereof under the caption "Canadian Commitment", or otherwise provided for in an Assignment and Acceptance (as the same may be increased or reduced from time to time pursuant to Section 2.4 hereof).

Canadian Dollars or C\$ means lawful money of Canada.

Canadian Dollar Revolving Notes means the Notes of Canadian Borrower evidencing the Canadian Revolving Loans denominated in Canadian Dollars, in the form of Exhibit H hereto.

Canadian Lender means each lender party hereto with any Canadian Commitment or any outstanding Canadian Obligations.

Canadian Letters of Credit has the meaning assigned to such term in Section 2.2 hereof.

Canadian Obligations means, as at any date of determination thereof, the sum of the following (determined without duplication): (i) the aggregate principal amount of Canadian Revolving Loans outstanding hereunder on such date, plus (ii) the aggregate amount of the Bankers' Acceptance Liabilities outstanding on such date, plus (iii) the aggregate amount of Letter of Credit Liabilities outstanding on such date relating to Canadian Letters of Credit. For purposes of calculating the aggregate amount of Canadian Obligations, all amounts or values expressed in Canadian Dollars shall be converted into Dollars at the Exchange Rate in effect as of the date of determination.

Canadian Prime Loans means Canadian Revolving Loans made pursuant to Section 2.1(b) hereof which are denominated in Canadian Dollars.

Canadian Prime Rate means, on any day, as to Loans denominated in Canadian Dollars made to Canadian Borrower, the greater of (a) the annual rate of interest announced from time to time by RBC as its prime rate then in effect at its Principal Office, being the reference rate used by RBC for determining interest rates on commercial loans denominated in Canadian Dollars to borrowers in Canada, and (b) an annual rate of interest equal to the sum of (i) the CDOR Rate and (ii) 1.00% per annum. The Canadian Prime Rate is a reference rate and does not necessarily represent the lowest or best rate or a favored rate, and Chase, RBC, Chase U.K., each Agent and each Lender disclaims any statement, representation or warranty to the contrary. Chase, RBC, Chase U.K., any Agent or any Lender may make commercial loans or other loans at rates of interest at, above or below the Canadian Prime Rate.

Canadian Revolving Loan means any revolving credit loan made pursuant to Section 2.1(b) hereof.

Canadian Revolving Notes means the Notes of Canadian Borrower evidencing the Canadian Revolving Loans denominated in Dollars, in the form of Exhibit C hereto.

Capital Expenditures means, with respect to any Person for any period, expenditures in respect of fixed or capital assets by such Person, including capital lease obligations incurred during such period (to the extent not already included), which would be reflected as additions to Property, plant or equipment on a balance sheet of such Person and its consolidated Subsidiaries, if any, prepared in accordance with GAAP; but excluding expenditures during such period for the repair or replacement of any fixed or capital asset which was destroyed, damaged or taken, in whole or in part, to the extent financed by the proceeds of an insurance policy maintained by such Person or the proceeds of a condemnation award.

CDOR Rate means, on any day, an annual rate of interest equal to the average 30 day rate applicable to Canadian bankers' acceptances appearing on the "Reuters Screen CDOR Page" on such day, or if such day is not a Business Day, then on the immediately preceding Business Day; provided, however, if such rate does not appear on the Reuters Screen CDOR Page as contemplated, then the CDOR Rate on any day shall be calculated as the arithmetic mean of the 30 day rates applicable to Canadian bankers' acceptances quoted by the Canadian Lenders which are listed in Schedule I to the Bank Act (Canada) as of 12:00 noon (Toronto, Ontario time) on such day, or if such day is not a Business Day, then on the immediately preceding Business Day.

CD Reserve Rate means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board of Governors of the Federal Reserve System of the United States of America to which the U.S. Agent is subject for new negotiable nonpersonal time deposits in dollars of over \$100,000 with maturities approximately equal to three months. The CD Reserve Rate shall be adjusted automatically on and as of the effective date of any change in such reserve percentage.

Ceiling Rate means, on any day, the maximum nonusurious rate of interest permitted for that day by whichever of applicable United States federal or Texas laws or, in the case of advances made in Canada by Canadian Lenders to Canadian Borrower, whichever of applicable Canada federal or Ontario laws (or the laws of any other jurisdiction whose usury laws are deemed to apply to the Notes or any other Loan Documents despite the intention and desire of the express choice of law provisions set forth herein) permits the higher interest rate, stated as a rate per annum. On each day, if any, that the Texas Finance Code establishes the Ceiling Rate, the Ceiling Rate shall be the "weekly ceiling" (as defined in ss.303 of the Texas Finance Code) for that day. U.S. Agent may from time to time, as to current and future balances, implement any other ceiling under the Texas Finance Code by notice to Borrowers, if and to the extent permitted by the Texas Finance Code. Without notice to Borrowers or any other Person, the Ceiling Rate shall automatically fluctuate upward and downward as and in the amount by which such maximum nonusurious rate of interest permitted by applicable law fluctuates.

Change of Control means a change resulting when any Unrelated Person or any Unrelated Persons acting together which would constitute a Group together with any Affiliates or Related Persons thereof (in each case also constituting Unrelated Persons) shall at any time either (i) Beneficially Own more than 50% of the aggregate voting power of all classes of Voting Stock of U.S. Borrower or (ii) succeed in having sufficient of its or their nominees elected to the Board of Directors of U.S. Borrower such that such nominees, when added to any existing directors remaining on the Board of Directors of U.S. Borrower after such election who is an Affiliate or Related Person of such Person or Group, shall constitute a majority of the Board of Directors of U.S. Borrower. As used herein (a) "Beneficially Own" means "beneficially own" as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended, or any successor provision thereto; provided, however, that, for purposes of this definition, a Person shall not be deemed to Beneficially Own securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates until such tendered securities are accepted for purchase or exchange; (b) "Group" means a "group" for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended; (c) "Unrelated Person" means at any time any Person other than U.S. Borrower or any Subsidiary of U.S. Borrower and other than any trust for any employee benefit plan of U.S. Borrower or any Subsidiary of U.S. Borrower; (d) "Related Person" of any Person shall mean any other Person owning (1) 5% or more of the outstanding common stock of such Person or (2) 5% or more of the Voting Stock of such Person; and (e) "Voting Stock" of any Person shall mean capital stock of such Person which ordinarily has voting power for the election of directors (or persons performing similar functions) of such Person, whether at all times or only so long as no senior class of securities has such voting power by reason of any contingency.

Code means the Internal Revenue Code of 1986, as amended, as now or hereafter in effect, together with all regulations, rulings and interpretations thereof or thereunder by the Internal Revenue Service.

Collateral means all Property, tangible or intangible, real, personal or mixed, now or hereafter subject to the Liens created pursuant to any of the Security Documents.

Commitment Fee Percentage means (i) on any day prior to April 1, 2002, 0.50% per annum and (ii) on and after April 1, 2002, the applicable per annum percentage set forth at the appropriate intersection in the table shown below, based on the Funded Debt to EBITDA Ratio as of the last day of the most recently ended fiscal quarter of U.S. Borrower calculated by U.S. Agent as soon as practicable after receipt by U.S. Agent of all financial reports required under this Agreement with respect to such fiscal quarter (including a Compliance Certificate) (provided, however, that if the Commitment Fee Percentage is increased as a result of the reported Funded Debt to EBITDA Ratio, such increase shall be retroactive to the date that U.S. Borrower was obligated to deliver such financial reports to U.S. Agent pursuant to the terms of this Agreement and provided further, however, that if the Commitment Fee Percentage is decreased as a result of the reported Funded Debt to EBITDA Ratio, and such financial reports are delivered to U.S. Agent not more than ten (10) calendar days after the date required to be delivered pursuant to the terms of this Agreement, such decrease shall be retroactive to the date that U.S. Borrower was obligated to deliver such financial reports to U.S. Agent pursuant to the terms of this Agreement):

Funded Debt to EBITDA Ratio -----	Commitment Fee Percentage -----
Greater than or equal to 2.50 to 1.00	0.50
Greater than or equal to 2.00 to 1.00 but less than 2.50 to 1.00	0.40
Greater than or equal to 1.50 to 1.00 but less than 2.00 to 1.00	0.35
Less than 1.50 to 1.00	0.30

Commitment Percentage means, as to any Lender, the percentage equivalent of a fraction the numerator of which is the amount of such Lender's U.S. Commitment, Canadian Commitment or U.K. Commitment, as the case may be, and the denominator of which is the aggregate amount of the U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be, of all Lenders.

Compliance Certificate shall have the meaning given to it in Section 7.2(c) hereof.

Contribution Agreements means those certain Contribution Agreements dated concurrently herewith executed by and among, respectively, (i) U.S. Borrower and the guarantors in respect of the U.S. Obligations, (ii) Canadian Borrower and the guarantors in respect of the Canadian Obligations and (iii) U.K. Borrower and the guarantors in respect of the U.K. Obligations, as they may from time to time be amended, modified, restated or supplemented.

Controlled Group means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with any Borrower, are treated as a single employer under Section 414 of the Code or under Applicable Canadian Pension Legislation.

Corporation means any corporation, limited liability company, partnership, joint venture, joint stock association, business trust and other business entity.

Cover for Letter of Credit Liabilities or any Bankers' Acceptance Liabilities shall be effected by paying to U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, immediately available funds, to be held by U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, in a collateral account maintained by U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, at its Principal Office and collaterally assigned to U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, as security for the applicable Obligations using documentation reasonably satisfactory to U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, in the amount required by any applicable provision hereof. Such amount shall be retained by U.S. Agent, Canadian Agent or U.K.

Agent, as the case may be, in such collateral account until such time as the applicable Letter of Credit shall have expired and the Reimbursement Obligations, if any, with respect thereto shall have been fully satisfied or the applicable Bankers' Acceptance shall have matured and the related Bankers' Acceptance Liabilities shall have been fully satisfied; provided, however, that at such time if a Default or Event of Default has occurred and is continuing, U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, shall not be required to release such amount in such collateral account from the time of such collateral assignment until such Default or Event of Default shall have been cured or waived.

Currency Exchange Risk Indebtedness means all obligations and indebtedness of any Obligor with respect to the program for the hedging of currency exchange risk provided for in any program entered into by such Obligor for the purpose of reducing such Obligor's exposure to currency exchange fluctuations and not for speculative purposes, approved in writing by U.S. Agent (such approval not to be unreasonably withheld), as it may from time to time be amended, modified, restated or supplemented.

Debt Service means, with respect to any Person for any period, the sum of (i) Interest Expense for such period and (ii) scheduled principal payments on obligations included within Borrowed Money Indebtedness for such period.

Default means an Event of Default or an event, act or condition which with notice or lapse of time or both would, unless cured or waived, become an Event of Default.

Dollars, US\$ and \$ means lawful money of the United States of America.

Dual Lender means any Lender which has both a U.S. Commitment and either a Canadian Commitment or a U.K. Commitment.

EBITDA means, without duplication, for any period the consolidated net earnings (excluding any extraordinary gains or losses) of U.S. Borrower and its Subsidiaries, on a consolidated basis, plus, to the extent deducted in calculating consolidated net income, depreciation, amortization, other non-cash items, Interest Expense and federal, state and provincial income tax expense plus non-operating and medical retiree expenses of National Tank Company in an aggregate amount not to exceed \$1,500,000 and minus, to the extent added in calculating consolidated net income, any non-cash items.

Eligible Accounts shall mean, as at any date of determination thereof, each Account of a Person which is subject to a Lien created by any Security Document and on which U.S. Agent (as to U.S. Borrower or any of its Subsidiaries (other than Foreign Subsidiaries)) or Canadian Agent (as to any Subsidiary of Canadian Borrower) or U.K. Agent (as to any Subsidiary of U.K. Borrower) shall have a first-priority perfected Lien (subject only to Permitted Liens) which is at said date payable to such Person and which complies with the following requirements: (a) (i) the subject goods have been sold to an account debtor on an absolute sale basis on open account and not on consignment, on approval or on a "sale or return" basis or subject to any other repurchase or return agreement and no material part of the subject goods has been returned, rejected, lost or damaged (provided that the foregoing shall not disqualify accounts arising from goods sold with usual and

customary sales warranties or having warranty claims which are not material), (ii) the Account is stated to be payable in Dollars (as to any Eligible Accounts owned by U.S. Borrower or any of its Subsidiaries) or Canadian Dollars (as to Canadian Borrower or any Subsidiary of Canadian Borrower) or Euros or Pounds (as to U.K. Borrower or any Subsidiary of U.K. Borrower) and is not evidenced by chattel paper or an instrument of any kind (unless the applicable Agent has a perfected first priority Lien (subject only to Permitted Liens) on such chattel paper or instrument) and said account debtor is not insolvent or the subject of any bankruptcy or insolvency proceedings of any kind unless the applicable Person has received a letter of credit, bond or other financial guarantee in an amount equal to or greater than such Account issued by a Qualified Institution and otherwise in form and substance satisfactory to Agents; (b) the account debtor must be located in the United States (as to any Eligible Accounts owned by U.S. Borrower or any of its Subsidiaries (other than Foreign Subsidiaries)) or in the United States or Canada (as to Canadian Borrower or any Subsidiary of Canadian Borrower) or in the United States or the United Kingdom or any other jurisdiction approved in writing by U.K. Agent (such approval not to be unreasonably withheld) (as to U.K. Borrower or any Subsidiary of U.K. Borrower), except for (x) Accounts as to which the applicable Person has received a letter of credit, bond or other financial guarantee in an amount equal to or greater than such Account issued by a Qualified Institution and otherwise in form and substance satisfactory to Agents and (y) other Accounts approved in writing by Agents; (c) it is a valid obligation of the account debtor thereunder and is not subject to any offset or other defense on the part of such account debtor or to any claim on the part of such account debtor denying liability thereunder (provided that the foregoing shall not disqualify accounts arising from goods sold with usual and customary sales warranties or having warranty claims which are not material); (d) it is subject to no Lien whatsoever, except for the Liens created or permitted pursuant to the Loan Documents; (e) it is evidenced by an invoice submitted to the account debtor in timely fashion and in the normal course of business; (f) it has not remained unpaid beyond 90 days after the date of the invoice; (g) it does not arise out of transactions with an employee, officer, agent, director or stockholder of the applicable Person or any Affiliate of such Person; (h) not more than 20% (or such higher percentage as Agents may approve in writing for any particular account debtor) of the other Accounts of the applicable account debtor or any of its Affiliates fail to satisfy all of the requirements of an "Eligible Account" (provided that this clause shall not apply to Exxon-Mobil, Chevron, BP, Shell, Unocal or Texaco or their Subsidiaries); (i) as to any Eligible Accounts owned by U.S. Borrower or any of its Subsidiaries (other than U.K. Borrower or any of its Subsidiaries), inclusion of the applicable Account does not cause the total Eligible Accounts with respect to the applicable account debtor and its Affiliates, in the aggregate, to exceed 10% of the total Eligible Accounts of the applicable Borrower (provided, however, that the limitation set forth in this clause shall not apply to Investment Grade Debtors), and (j) each of the representations and warranties set forth in the Security Documents executed by the applicable Person with respect thereto is true and correct in all material respects on such date. Accounts for progress payments which are due under contracts entered into in the ordinary course of business and that otherwise satisfy all of the above criteria shall constitute Eligible Accounts (net of all amounts relating to advance billings) for purposes of the Canadian Borrowing Base only. In the event of any dispute under the foregoing criteria, about whether an Account is or has ceased to be an Eligible Account, the decision of Agents, made in good faith, shall be conclusive and binding, absent manifest error.

Eligible Inventory shall mean, as at any date of determination thereof, Inventory of a Person which is subject to a Lien created by any Security Documents and on which U.S. Agent (as to U.S.

Borrower or any of its Subsidiaries (other than Foreign Subsidiaries)) or Canadian Agent (as to any Subsidiary of Canadian Borrower) shall have a first-priority perfected Lien (subject only to Permitted Liens) and which complies with the following requirements: (a) such Inventory shall be valued in accordance with GAAP and consist of (i) eligible raw materials, (ii) work-in-process, (iii) finished goods and (iv) parts and components, provided that all such Inventory shall be within the United States of America (as to U.S. Borrower or any of its Subsidiaries (other than Foreign Subsidiaries)) or in the United States of America or Canada (as to Canadian Borrower or any Subsidiary of Canadian Borrower); (b) it is in good condition, meets all standards imposed by any Governmental Authority having regulatory authority over it, its use and/or sale and is either currently usable or currently salable in the normal course of business of the applicable Person; (c) it is not in the possession or control of any warehouseman, bailee, or any agent or processor for or customer of the applicable Person or, if it is, (i) the applicable Person shall have notified, in a manner that effectively under applicable law creates a valid and first priority Lien in favor of the applicable Agent in such Inventory, such warehouseman, bailee, agent, processor or customer of the applicable Agent's Lien and (ii) such warehouseman, bailee, agent, processor or customer has subordinated any Lien it may claim therein and agreed to hold all such Inventory during the continuance of an Event of Default for the applicable Agent's account subject to the applicable Agent's instructions, and (d) each of the representations and warranties set forth in the Security Documents executed by the applicable Person with respect thereto is true and correct in all material respects on such date. In the event of any dispute under the foregoing criteria, about whether a portion of Inventory is or has ceased to be Eligible Inventory, the decision of Agents, made in good faith, shall be conclusive and binding, absent manifest error.

Environmental Claim means any third party (including Governmental Authorities and employees) action, lawsuit, claim or proceeding (including claims or proceedings at common law or under the Occupational Safety and Health Act or similar laws relating to safety of employees) which seeks to impose liability for (i) noise; (ii) pollution, contamination, protection or clean-up of the air, surface water, ground water or land; (iii) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation; (iv) exposure to Hazardous Substances; (v) the safety or health of employees or (vi) the manufacture, processing, distribution in commerce, use, discharge or storage of Hazardous Substances. An "Environmental Claim" includes, but is not limited to, a common law action, as well as a proceeding to issue, modify or terminate an Environmental Permit to the extent that such a proceeding attempts to redress violations of an applicable permit, license, or regulation as alleged by any Governmental Authority.

Environmental Liabilities means all liabilities arising from any Environmental Claim, Environmental Permit or Requirements of Environmental Law under any theory of recovery, at law or in equity, and whether based on negligence, strict liability or otherwise, including but not limited to remedial, removal, response, abatement, investigative, monitoring, personal injury and damage to Property or injuries to persons, and any other related costs, expenses, losses, damages, penalties, fines, liabilities and obligations, and all costs and expenses necessary to cause the issuance, reissuance or renewal of any Environmental Permit including reasonable attorneys' fees and court costs.

Environmental Permit means any permit, license, approval or other authorization under any applicable Legal Requirement relating to pollution or protection of health or the environment,

including laws, regulations or other requirements relating to emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous substances or toxic materials or wastes into ambient air, surface water, ground water or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants or Hazardous Substances.

Equity Interests means shares of the capital stock, partnership interests, membership interest in a limited liability company, beneficial interests in a trust or other equity interests in any Borrower or any of their Subsidiaries or other applicable Person or any warrants, options or other rights to acquire such interests.

ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time, and all rules, regulations, rulings and interpretations adopted by the Internal Revenue Service or the U.S. Department of Labor thereunder and, as the context may require, Applicable Canadian Pension Legislation.

Eurodollar Rate means for any day during an Interest Period for a LIBOR Borrowing a rate per annum equal to the lesser of (a) the sum of (1) the Adjusted LIBOR in effect on the first day of such Interest Period plus (2) the applicable Margin Percentage from time to time in effect and (b) the Ceiling Rate. Each Eurodollar Rate is subject to adjustments for reserves, insurance assessments and other matters as provided for in Sections 3.3 and 11.17 hereof.

Eurodollar Reserve Requirement means, on any day, that percentage (expressed as a decimal fraction and rounded, if necessary, to the next highest one ten thousandth [.0001]) which is in effect on such day for determining all reserve requirements (including, without limitation, basic, supplemental, marginal and emergency reserves) applicable to "Eurocurrency liabilities," as currently defined in Regulation D. Each determination of the Eurodollar Reserve Requirement by any Agent shall be conclusive and binding, absent manifest error, and may be computed using any reasonable averaging and attribution method.

Euros means the lawful currency for the time being of the European Community.

Event of Default shall have the meaning assigned to it in Section 9.1 hereof.

Excess Cash Flow means, without duplication, for any period, (i) EBITDA for such period less (ii) the sum of the principal component of all Debt Service of U.S. Borrower and its Subsidiaries (other than mandatory prepayments of the Term Loans calculated on the basis of Excess Cash Flow), cash Interest Expense of U.S. Borrower and its Subsidiaries, voluntary prepayments of all Borrowed Money Indebtedness of U.S. Borrower and its Subsidiaries, federal, state and provincial income taxes allocated to U.S. Borrower and its Subsidiaries, Permitted Dividends (exclusive of dividends described in clause (iii) of the definition of "Permitted Dividends") and Capital Expenditures of U.S. Borrower and its Subsidiaries for such period.

Exchange Rate means, on any day, (a) with respect to Canadian Dollars in relation to Dollars, the spot rate as quoted by The Bank of Canada as its noon spot rate at which Dollars are offered on such day for Canadian Dollars, (b) with respect to Dollars in relation to Canadian Dollars, the spot

rate as quoted by The Bank of Canada as its noon spot rate at which Canadian Dollars are offered on such day for Dollars, (c) with respect to Dollars in relation to Pounds or Euros, the spot rate quoted by Chase U.K. as its noon spot rate at which Pounds or Euros are offered on such day for Dollars on the London foreign exchange market and (d) with respect to Pounds or Euros in relation to Dollars, the spot rate quoted by Chase U.K. as its noon spot rate at which Dollars are offered on such day for Pounds or Euros on the London foreign exchange market.

Excluded Subsidiaries means (i) NATCO (UK) Limited, a company incorporated in England and Wales under the Companies Act of the United Kingdom, (ii) NATCO Oilfield Construction, Inc., a California corporation, (iii) Oilfield Construction Company, Inc., a California corporation, (iv) NTC Technical Services, a Delaware corporation, (v) Dormant Axsia Limited, a company incorporated in England and Wales under the Companies Act of the United Kingdom, (vi) Serck Baker Limited, a company incorporated in England and Wales under the Companies Act of the United Kingdom, (viii) Howmar Limited, a company incorporated in England and Wales under the Companies Act of the United Kingdom, (ix) Test, Inc., a Louisiana corporation, (x) Test Automation & Controls, Inc., a Louisiana corporation, and (xi) each Subsidiary of U.K. Borrower which is not organized under the laws of the United Kingdom or any political subdivision thereof.

EXIM Facility means that certain International Revolving Loan Agreement dated June 30, 1997 executed by and between National Tank Company and Chase and the other security documents contemplated thereby (as the foregoing may be amended from time to time).

Federal Funds Rate means, for any day, a fluctuating interest rate per annum equal for such day to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any such day which is a Business Day, the average of the quotations for such day on such transactions received by U.S. Agent from three Federal funds brokers of recognized standing selected by U.S. Agent in its sole and absolute discretion.

Financing Statements means all such Uniform Commercial Code or Canadian provincial personal Property security financing statements or, in the case of a Lien created in England and Wales, completed forms 395 in accordance with Section 395 of the Companies Act 1985, as any Agent shall reasonably require, in Proper Form, duly executed by the applicable Borrower (or any other applicable Obligor) to give notice of and to perfect or continue perfection of the applicable Agent's Liens in any applicable Collateral, as any of the foregoing may from time to time be amended, modified, supplemented or restated.

Fixed Charge Coverage Ratio means, as of any day, the ratio of (a) Pro Forma EBITDA for the 12 months ending on such day less the current portion of federal, state and provincial income tax expense recognized during such 12-month period to (b) the sum of (1) the principal component of Debt Service for such 12-month period plus (2) cash Interest Expense for such 12-month period paid by U.S. Borrower and its Subsidiaries for such 12-month period plus (3) Permitted Dividends by U.S. Borrower or by any Subsidiary of U.S. Borrower to any Person other than U.S. Borrower (or a wholly-owned Subsidiary of U.S. Borrower) for such 12-month period plus (4) actual Capital Expenditures paid by U.S. Borrower and its Subsidiaries for such 12-month period.

Foreign Subsidiaries means Subsidiaries which are organized under the laws of a jurisdiction other than the United States of America, any State of the United States or any political subdivision thereof.

Funded Debt to EBITDA Ratio means, as of any day, the ratio of (a) Borrowed Money Indebtedness of U.S. Borrower and its Subsidiaries, on a consolidated basis, as of such day (exclusive of the categories of Borrowed Money Indebtedness, other than obligations in respect of bankers' acceptances, described in clauses (vii), (viii) and (ix) of the definition of "Borrowed Money Indebtedness" set forth in this Section 1.1) to (b) Pro Forma EBITDA for the 4 quarter period ending on the last day of the most recent fiscal quarter for which financial statements are available.

Funding Loss means, with respect to (a) any Borrower's payment of principal of a LIBOR Borrowing on a day other than the last day of the applicable Interest Period; (b) any Borrower's failure to borrow a LIBOR Borrowing or to borrow funds by way of Bankers' Acceptances on the date specified by such Borrower; (c) any Borrower's failure to make any prepayment of the Loans (other than Base Rate Borrowings and Canadian Prime Loans) on the date specified by such Borrower, or (d) any cessation of a Eurodollar Rate to apply to the Loans or any part thereof pursuant to Section 3.3, in each case whether voluntary or involuntary, any loss, expense, penalty, premium or liability actually incurred by any Lender (including but not limited to any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain a Loan).

GAAP means, as to a particular Person, such United States accounting practice as, in the opinion of independent certified public accountants of recognized national standing regularly retained by such Person, conforms at the time to generally accepted accounting principles, consistently applied for all periods after the Effective Date so as to present fairly the financial condition, and results of operations and cash flows, of such Person. If any change in any accounting principle or practice is required by the Financial Accounting Standards Board, all reports and financial statements required hereunder may be prepared in accordance with such change so long as the applicable Person provides to Agents such disclosures of the impact of such change as any Agent may reasonably require. No such change in any accounting principle or practice shall, in itself, cause a Default or Event of Default hereunder (but Borrowers, Agents and Lenders shall negotiate in good faith to replace any financial covenants hereunder to the extent such financial covenants are affected by such change in accounting principle or practice).

Governmental Authority means any governmental authority of the United States of America, Canada, the United Kingdom, any State of the United States, any Province of Canada, or of any other foreign jurisdiction and any political subdivision of any of the foregoing, and any central bank, agency, department, commission, board, bureau, court or other tribunal having or asserting jurisdiction over any Agent, any Lender, any Obligor or their respective Property.

Guaranties means, collectively, (i) the Guaranties dated concurrently herewith executed by each Subsidiary of U.S. Borrower (other than Foreign Subsidiaries and Excluded Subsidiaries) in favor of U.S. Agent, for the benefit of U.S. Lenders, (ii) the Guaranties dated concurrently herewith executed by U.S. Borrower and each Subsidiary of U.S. Borrower (other than Excluded Subsidiaries and Foreign Subsidiaries which are not Subsidiaries of Canadian Borrower) in favor of Canadian

Agent, for the benefit of Canadian Lenders, (iii) the Guaranties dated concurrently herewith executed by U.S. Borrower and each Subsidiary of U.S. Borrower (other than Excluded Subsidiaries and Foreign Subsidiaries which are Subsidiaries of U.K. Borrower) in favor of U.K. Agent, for the benefit of U.K. Lenders and (iv) any and all other guaranties hereafter executed in favor of any Agent, for the benefit of U.S. Lenders, Canadian Lenders or U.K. Lenders, relating to the Obligations, as any of them may from time to time be amended, modified, restated or supplemented.

Hazardous Substance means petroleum products, and any hazardous or toxic waste or substance defined or regulated as such from time to time by any law, rule, regulation or order described in the definition of "Requirements of Environmental Law".

Home Jurisdiction Withholding Taxes means withholding taxes imposed by the United Kingdom.

Interest Expense means, for any period, total interest expense accruing on Borrowed Money Indebtedness of U.S. Borrower and its Subsidiaries during such period (including interest expense attributable to capitalized leases and net costs under interest rate swap, collar, cap or similar agreements providing interest rate protection), determined in accordance with GAAP.

Interest Options means the Base Rate, each Eurodollar Rate and, as to the Canadian Dollar Revolving Notes only, the Canadian Prime Rate, and "Interest Option" means any of them.

Interest Payment Dates means (a) for Base Rate Borrowings and for Canadian Prime Loans, March 31, 2001 and the last day of each March, June, September and December thereafter prior to the Revolving Loan Maturity Date or the Term Loan Maturity Date, as the case may be, and the Revolving Loan Maturity Date or the Term Loan Maturity Date, as the case may be; and (b) for LIBOR Borrowings, the end of the applicable Interest Period (and if such Interest Period exceeds three months' duration, quarterly, commencing on the first quarterly anniversary of the first day of such Interest Period) and the Revolving Loan Maturity Date or the Term Loan Maturity Date, as the case may be.

Interest Period means, for each LIBOR Borrowing, a period commencing on the date such LIBOR Borrowing began and ending on the numerically corresponding day which is, subject to availability as set forth in Section 3.3(c)(iii), 1, 2, 3 or 6 months thereafter, as any Borrower shall elect in accordance herewith; provided, (1) unless Agents shall otherwise consent, no Interest Period with respect to a LIBOR Borrowing shall commence on a date earlier than three (3) Business Days after this Agreement shall have been fully executed; (2) any Interest Period with respect to a LIBOR Borrowing which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day, unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day; (3) any Interest Period with respect to a LIBOR Borrowing which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the appropriate calendar month; (4) no Interest Period for a Revolving Loan shall ever extend beyond the Revolving Loan Maturity Date and no Interest Period for a Term Loan shall ever extend beyond the Term Loan Maturity Date, and

(5) Interest Periods shall be selected by each Borrower in such a manner that the Interest Period with respect to any portion of the Loans which shall become due shall not extend beyond such due date.

Interest Rate Risk Agreement means an interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or similar arrangement entered into by U.S. Borrower for the purpose of reducing U.S. Borrower's and its Subsidiaries' exposure to interest rate fluctuations and not for speculative purposes, as it may from time to time be amended, modified, restated or supplemented. To the extent Interest Rate Risk Agreements cover Borrowed Money Indebtedness exceeding \$5,000,000, in the aggregate, the prior written approval of U.S. Agent shall be required (such approval not to be unreasonably withheld).

Interest Rate Risk Indebtedness means all obligations and indebtedness of any Obligor with respect to the program for the hedging of interest rate risk provided for in any Interest Rate Risk Agreement.

Investment means the purchase or other acquisition of any securities or indebtedness of, or the making of any loan, advance, transfer of Property (other than transfers in the ordinary course of business) or capital contribution to, or the incurring of any liability (other than trade accounts payable arising in the ordinary course of business), contingently or otherwise, in respect of the indebtedness of, any Person.

Issuer means the issuer (or, where applicable, each issuer) of a Letter of Credit under this Agreement.

Investment Grade Account Debtors means account debtors which are rated A- or better by Standard & Poor's Ratings Services and A-3 or better by Moody's Investors Service, Inc.

Key Agreements means the Purchase Agreement and the EXIM Facility.

Legal Requirement means any law, statute, ordinance, decree, requirement, order, judgment, rule, or regulation (or interpretation of any of the foregoing) of, and the terms of any license or permit issued by, any Governmental Authority, whether presently existing or arising in the future.

Lender Affiliate means, (a) with respect to any Lender, (i) an Affiliate of such Lender or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender or an Affiliate of such Lender and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

Letter of Credit Liabilities means, at any time and in respect of any Letter of Credit, the sum of (i) the amount available for drawings under such Letter of Credit plus (ii) the aggregate unpaid amount of all Reimbursement Obligations at the time due and payable in respect of previous drawings made under such Letter of Credit. For the purpose of determining at any time the amount

described in clause (i), in the case of any Letter of Credit payable in a currency other than Dollars or Canadian Dollars, such amount shall be converted by Agent to Dollars by any reasonable method, and such converted amount shall be conclusive and binding, absent manifest error. For purposes of calculating the aggregate amount of Letter of Credit Liabilities, all amounts or values expressed in Canadian Dollars shall be converted into Dollars at the Exchange Rate in effect as of the date of calculation.

Letters of Credit means the U.S. Letters of Credit, the Canadian Letters of Credit and the U.K. Letters of Credit.

LIBOR means, for each Interest Period for any LIBOR Borrowing, the rate per annum (rounded upwards, if necessary, to the nearest 1/16th of 1%) equal to the average of the offered quotations appearing on Telerate Page 3750 (or if such Telerate Page shall not be available, any successor or similar service as may be selected by Agents and Borrowers) as of 11:00 a.m., Houston, Texas time (in respect of a LIBOR Borrowing relating to the U.S. Loans) or 12:00 noon, Toronto, Ontario time (in respect of a LIBOR Borrowing relating to the Canadian Revolving Loans) or 12:00 noon, London, United Kingdom time (in respect of a LIBOR Borrowing relating to the U.K. Revolving Loans) (or, in any case, as soon thereafter as practicable) on the day two Business Days prior to the first day of such Interest Period for deposits in Dollars having a term comparable to such Interest Period and in an amount comparable to the principal amount of the LIBOR Borrowing to which such Interest Period relates. If none of such Telerate Page 3750 nor any successor or similar service is available, then "LIBOR" shall mean, with respect to any Interest Period for any applicable LIBOR Borrowing, the rate of interest per annum, rounded upwards, if necessary, to the nearest 1/16th of 1%, quoted by U.S. Agent at or before 11:00 a.m., Houston, Texas time (in respect of a LIBOR Borrowing relating to the U.S. Loans) or by Canadian Agent at or before 12:00 noon, Toronto, Ontario time (in respect of a LIBOR Borrowing relating to the Canadian Revolving Loans) or by U.K. Agent at or before 12:00 noon, London, United Kingdom time (in respect of a LIBOR Borrowing relating to the U.K. Revolving Loans) (or, in any case, as soon thereafter as practicable), on the date two Business Days before the first day of such Interest Period, to be the arithmetic average of the prevailing rates per annum at the time of determination and in accordance with the then existing practice in the applicable market, for the offering to U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, by one or more prime banks selected by such Agent in its sole discretion, in the London interbank market, of deposits in Dollars for delivery on the first day of such Interest Period and having a maturity equal (or as nearly equal as may be) to the length of such Interest Period and in an amount equal (or as nearly equal as may be) to the LIBOR Borrowing to which such Interest Period relates. Each determination by any Agent of LIBOR shall be conclusive and binding, absent manifest error, and may be computed using any reasonable averaging and attribution method.

LIBOR Borrowing means each portion of the principal balance of the Loans at any time bearing interest at a Eurodollar Rate.

Lien means any mortgage, pledge, charge, encumbrance, security interest, collateral assignment or other lien (statutory or otherwise) or restriction of any kind, whether based on common law, constitutional provision, statute or contract, and shall include reservations, exceptions,

encroachments, easements, rights of way, covenants, conditions, restrictions and other title exceptions.

Loan Documents means, collectively, this Agreement, the Notes, the Bankers' Acceptances, the Bankers' Acceptance Notices, the Guaranties, the Contribution Agreements, all Applications, the Security Documents, the Notice of Entire Agreement, all instruments, certificates and agreements now or hereafter executed or delivered by any Obligor to any Agent or any Lender pursuant to any of the foregoing or in connection with the Obligations or any commitment regarding the Obligations, and all amendments, modifications, renewals, extensions, increases and rearrangements of, and substitutions for, any of the foregoing.

Loans means the U.S. Revolving Loans, the Canadian Revolving Loans, the U.K. Revolving Loans and the Term Loans provided for by Section 2.1 hereof.

Majority Lenders means, at any time while no Obligations are outstanding, Lenders having greater than 51% of the aggregate amount of U.S. Commitments, the Canadian Commitments and the U.K. Commitments, and at any time while Obligations are outstanding, Lenders having greater than 51% of the sum of outstanding Term Loans plus U.S. Commitments plus Canadian Commitments plus U.K. Commitments; provided that if all U.S. Commitments, Canadian Commitments and U.K. Commitments have terminated, the Majority Lenders shall be Lenders having greater than 51% of the aggregate amount of all Obligations outstanding.

Margin Percentage means (i) on any day prior to April 1, 2002, 0.75% per annum with respect to Base Rate Borrowings and Canadian Prime Loans and 2.25% per annum with respect to LIBOR Borrowings and (ii) on and after April 1, 2002, the applicable per annum percentage set forth at the appropriate intersection in the table shown below, based on the Funded Debt to EBITDA Ratio as of the last day of the then most recently ended fiscal quarter of U.S. Borrower calculated by U.S. Agent as soon as practicable after receipt by U.S. Agent of all financial reports required under this Agreement with respect to such fiscal quarter (including a Compliance Certificate) (provided, however, that if the Margin Percentage is increased as a result of the reported Funded Debt to EBITDA Ratio, such increase shall be retroactive to the date that U.S. Borrower was obligated to deliver such financial reports to U.S. Agent pursuant to the terms of this Agreement and provided further, however, that if the Margin Percentage is decreased as a result of the reported Funded Debt to EBITDA Ratio, and such financial reports are delivered to U.S. Agent not more than ten (10) calendar days after the date required to be delivered pursuant to the terms of this Agreement, such decrease shall be retroactive to the date that U.S. Borrower was obligated to deliver such financial reports to U.S. Agent pursuant to the terms of this Agreement):

Funded Debt to EBITDA Ratio	LIBOR Borrowings Margin Percentage	Canadian Prime Loans/ Base Rate Borrowings Margin Percentage
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Greater than or equal to 2.50 to 1.00	2.50	1.00

Greater than or equal to 2.00 to 1.00 but less than 2.50 to 1.00	2.25	0.75
Greater than or equal to 1.50 to 1.00 but less than 2.00 to 1.00	2.00	0.50
Less than 1.50 to 1.00	1.75	0.25

Material Adverse Effect means any material and adverse effect (i) on the validity or enforceability of any of the Loan Documents or any of the rights or remedies of the Agents or the Lenders thereunder or (ii) on the business, condition (financial or otherwise), results of operations, assets, liabilities or prospects of U.S. Borrower and its Subsidiaries on a consolidated basis.

Maximum Canadian Available Amount means, at any date, an amount equal to the lesser of (i) \$10,000,000 or (ii) the then effective Canadian Borrowing Base. In connection with the application of any provision hereof using the term "Maximum Canadian Available Amount", any amounts denominated in Canadian Dollars shall be converted to Dollars using the then current Exchange Rate. The Maximum Canadian Available Amount is subject to change pursuant to Section 2.4(c) hereof.

Maximum U.K. Available Amount means, at any date, an amount equal to the lesser of (i) \$5,000,000 or (ii) the then effective U.K. Borrowing Base. In connection with the application of any provision hereof using the term "Maximum U.K. Available Amount", any amounts denominated in Pounds or Euros shall be converted to Dollars using the then current Exchange Rate. The Maximum U.K. Available Amount is subject to change pursuant to Section 2.4(c) hereof.

Maximum U.S. Available Amount means, at any date, an amount equal to the lesser of (i) \$35,000,000 or (ii) the then effective U.S. Borrowing Base. The Maximum U.S. Available Amount is subject to change pursuant to Section 2.4(c) hereof.

Net Worth means, with respect to U.S. Borrower and its Subsidiaries, the sum of preferred stock (if any), par value of common stock, capital in excess of par value of common stock and retained earnings.

Notes shall have the meaning assigned to such term in Section 2.7 hereof.

Notice of Entire Agreement means a notice of entire agreement, in Proper Form, executed by Borrowers, each other Obligor and Agents, as the same may from time to time be amended, modified, supplemented or restated.

Obligations means, as at any date of determination thereof, the sum of the following: (i) the aggregate principal amount of Loans outstanding hereunder on such date, plus (ii) the aggregate amount of the outstanding Letter of Credit Liabilities on such date, plus (iii) the aggregate amount of outstanding Bankers' Acceptance Liabilities on such date, plus (iv) all other outstanding

liabilities, obligations and indebtedness of any Obligor under any Loan Document on such date. For purposes of calculating the aggregate amount of Obligations, all amounts or values expressed in Canadian Dollars, Pounds or Euros shall be converted into Dollars at the applicable Exchange Rate in effect as of the date of determination.

Obligors means each Borrower and each Person now or hereafter executing a Guaranty and/or a Security Agreement.

Organizational Documents means, with respect to a United States corporation, the certificate of incorporation, articles of incorporation and bylaws of such corporation; with respect to a partnership, the partnership agreement establishing such partnership; with respect to a trust, the instrument establishing such trust and with respect to any other Person, the agreements or instruments pursuant to which such Person was formed and by which such Person is governed; in each case including any and all modifications thereof as of the date of the Loan Document referring to such Organizational Document and any and all future modifications thereof.

Past Due Rate means, on any day, a rate per annum equal to the lesser of (i) the Ceiling Rate for that day or (ii) the applicable Base Rate or Canadian Prime Rate, as the case may be, plus the Margin Percentage for Base Rate Borrowings then in effect plus three percent (3%).

PBGC means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA and any pension commission or similar body or fund constituted under any Applicable Canadian Pension Legislation.

Permitted Dividends means (i) dividends or distributions by a Subsidiary of U.S. Borrower to U.S. Borrower or any other Subsidiary (other than a Foreign Subsidiary or an Excluded Subsidiary) of U.S. Borrower and dividends or distributions by any Foreign Subsidiary of U.S. Borrower to any other Foreign Subsidiary of U.S. Borrower, (ii) stock dividends, (iii) so long as no Default or Event of Default shall have occurred and be continuing (or would result therefrom) and so long as the payment required under Section 3.2(b)(2) hereof for such fiscal year (based on Excess Cash Flow for the preceding fiscal year) shall have been paid, dividends paid by U.S. Borrower to its shareholders for the fiscal year 2001 and in each fiscal year thereafter in an aggregate amount not to exceed fifty percent (50%) of net income for the preceding fiscal year.

Permitted Investments means: (a) readily marketable securities issued or fully guaranteed by the full faith and credit of the United States of America or of Canada or of the United Kingdom with maturities of not more than one year; (b) commercial paper rated "Prime 1" by Moody's Investors Service, Inc. or "A-1" by Standard and Poor's Ratings Services or the equivalent thereof by Dominion Bond Rating Service Limited with maturities of not more than 180 days; (c) certificates of deposit or repurchase obligations issued by any U.S., Canadian or United Kingdom domestic bank having capital surplus of at least \$100,000,000 or by any other financial institution acceptable to the Majority Lenders, all of the foregoing not having a maturity of more than one year from the date of issuance thereof, and (d) loans to Nat Gregory not to exceed \$3,600,000 at any one time outstanding.

Permitted Liens means each of the following: (a) Liens for taxes, but only to the extent that payment thereof shall not at the time be due or if due, the payment thereof is being diligently contested in good faith and adequate reserves computed in accordance with GAAP have been set aside therefor; (b) Liens in effect on the Effective Date and disclosed to the Lenders in the financial statements delivered on or prior to the Effective Date pursuant to Section 6.2 hereof or in a schedule hereto; (c) normal reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions and encumbrances which do not secure Borrowed Money Indebtedness and which do not have a material adverse effect on the value or utility of the applicable Property; (d) Liens in favor of any Agent or any Lender under the Loan Documents, including without limitation, Liens securing Interest Rate Risk Indebtedness or Currency Exchange Risk Indebtedness owed to one or more of the U.S. Lenders (but not to any Person which is not, at such time, a U.S. Lender); (e) Liens incurred or deposits made in the ordinary course of business (1) in connection with workmen's compensation, unemployment insurance, social security and other like laws, or (2) to secure insurance in the ordinary course of business, the performance of bids, tenders, contracts, leases, licenses, statutory obligations, surety, appeal and performance bonds and other similar obligations incurred in the ordinary course of business, not, in any of the cases specified in this clause (2), incurred in connection with the borrowing of money, the obtaining of advances or the payment of the deferred purchase price of Property; (f) attachments, judgments and other similar Liens arising in connection with court proceedings, provided that the execution and enforcement of such Liens are effectively stayed and the claims secured thereby are being actively contested in good faith with adequate reserves made therefor in accordance with GAAP; (g) Liens imposed by law, such as landlords', carriers', warehousemen's, artisans', mechanics', materialmen's and vendors' liens, incurred in good faith in the ordinary course of business and securing obligations which are not yet due or which are being contested in good faith by appropriate proceedings if adequate reserves with respect thereto are maintained in accordance with GAAP; (h) zoning restrictions, easements, licenses, reservations, provisions, covenants, conditions, waivers, and restrictions on the use of Property, and which do not in any case singly or in the aggregate materially impair the present value or utility of the applicable Property; (i) Liens securing purchase money indebtedness permitted under Section 8.1 hereof and covering the Property so purchased; (j) capital leases and sale/leaseback transactions permitted under the other provisions of this Agreement, and (k) extensions, renewals and replacements of Liens referred to in clauses (a) through (j) of this definition; provided that any such extension, renewal or replacement Lien shall be limited to the Property or assets covered by the Lien extended, renewed or replaced and that the Borrowed Money Indebtedness secured by any such extension, renewal or replacement Lien shall be in an amount not greater than the amount of the indebtedness secured by the Lien extended, renewed or replaced.

Person means any individual, Corporation, trust, unincorporated organization, Governmental Authority or any other form of entity.

Plan means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code or any Applicable Canadian Pension Legislation and is either (a) maintained by, or contributed to by, any Borrower or any member of the Controlled Group for employees of any Borrower or any member of the Controlled Group or (b) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which any Borrower

or any member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

Pounds means the lawful currency for the time being of the United Kingdom.

Prime Rate means, on any day, (a) as to Loans made to U.S. Borrower, the rate of interest publicly announced by Chase as its prime rate in effect at its principal office in New York City, (b) as to Loans denominated in Dollars made to Canadian Borrower, the base rate for that day for Loans denominated in Dollars quoted by RBC and (c) as to Loans made to U.K. Borrower, the rate for that day for Loans denominated in Dollars quoted by Chase U.K. to prime banks in the London interbank market for the relevant amount and the relevant period or such other rate as notified by Chase U.K. to U.K. Borrower. The Prime Rate is, in each case, a reference rate and does not necessarily represent the lowest or best rate or a favored rate, and Chase, RBC, Chase U.K., each Agent and each Lender disclaims any statement, representation or warranty to the contrary. Chase, RBC, Chase U.K., any Agent or any Lender may make commercial loans or other loans at rates of interest at, above or below the Prime Rate.

Principal Office means (a) as to Obligations of U.S. Borrower, the principal office of U.S. Agent, presently located at 712 Main Street, Houston, Harris County, Texas 77002, (b) as to Obligations of Canadian Borrower, the principal office of Canadian Agent, presently located at 335 Eighth Avenue SW, 23rd Floor, Calgary, Alberta, Canada T2P 1C9 and (c) as to Obligations of U.K. Borrower, the principal office of U.K. Agent, presently located at Trinity Tower, 9 Thomas More Street, London, England, UK E1W 1YT.

Pro Forma EBITDA means, for any period for which the amount thereof is to be determined, EBITDA of U.S. Borrower and its Subsidiaries plus (or minus), without duplication, on a pro forma basis for such period, EBITDA of any Person becoming a Subsidiary of U.S. Borrower during such period (calculated as if such Person had been a Subsidiary of U.S. Borrower for all of such period) and with respect to which Agent and Lenders have been provided with Annual Financial Statements for the most recently ended fiscal year of such Person (provided, however, that unaudited annual financial statements for any applicable Person for the most recently ended fiscal year of such Person shall be acceptable so long as (i) such financial statements otherwise conform to the definition of "Annual Financial Statements", (ii) such financial statements are certified by the chief financial officer or other authorized officer of such Person as fairly presenting, in all material respects, the financial position of such person as of the applicable date or dates, and (iii) unaudited EBITDA does not comprise more than 20% of Pro Forma EBITDA). U.S. Borrower shall furnish to Agent supporting calculations for Pro Forma EBITDA and such other information as Agent may reasonably request to determine the accuracy of such calculation.

Proper Form means in form and substance reasonably satisfactory to Agents.

Property means any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible.

Purchase Agreement means that certain Sale and Purchase Agreement in relation to the entire issued share capital of Axsia Group Limited dated as of January 25, 2001 by and among U.S.

Borrower, and the "Shareholders" and "Optionholders" set forth in Schedule 1 thereof, as the same may from time to time be amended, modified, restated or supplemented.

Qualified Institution means (a) any bank or trust company which is organized under the laws of any country which is a member of the Organization for Economic Cooperation and Development or any political subdivision of any such country; and having capital, surplus and undivided profits aggregating at least \$100,000,000.00 (or its equivalent in another currency) as of the date of such Person's most recent financial reports, and (b) any other Person approved in writing by Agents.

Quarterly Dates means the last day of each March, June, September and December, provided that if any such date is not a Business Day, then the relevant Quarterly Date shall be the next succeeding Business Day.

Quarterly Financial Statements means the quarterly financial statements of a Person, which statements shall include a balance sheet as of the end of the applicable fiscal quarter and an income statement and a statement of cash flows for such fiscal quarter and for the fiscal year to date, subject to normal year-end adjustments, all setting forth in comparative form the corresponding figures as of the end of and for the corresponding fiscal quarter of the preceding year, prepared in accordance with GAAP in all material respects except that such statements are condensed and exclude detailed footnote disclosures and certified by the chief financial officer or other authorized officer of such Person as fairly presenting, in all material respects, the consolidated financial condition of such person as of such date. As to U.S. Borrower only, Quarterly Financial Statements shall also include unaudited consolidating financial statements for U.S. Borrower and its Subsidiaries, in Proper Form, certified by the chief financial officer or other authorized officer of U.S. Borrower as presenting fairly in all material respects the consolidating financial position of U.S. Borrower and its Subsidiaries.

Rate Designation Date means that Business Day which is (a) in the case of Base Rate Borrowings by the U.S. Borrower, 11:00 a.m., Houston, Texas time, in the case of Base Rate Borrowings by the Canadian Borrower, 12:00 noon, Toronto, Ontario time, and in the case of Base Rate Borrowings by the U.K. Borrower, 11:00 a.m., London, United Kingdom time, in each case on the date one Business Day preceding the date of such borrowing and (b) in the case of LIBOR Borrowings by the U.S. Borrower, 11:00 a.m., Houston, Texas time, in the case of LIBOR Borrowings by the Canadian Borrower, 12:00 noon, Toronto, Ontario time and in the case of LIBOR Borrowings by the U.K. Borrower, 11:00 a.m., London, United Kingdom time, in each case on the date three Business Days preceding the first day of any proposed Interest Period.

Rate Designation Notice means a written notice substantially in the form of Exhibit B.

Refunding Bankers' Acceptance has the meaning specified in Section 2.3(b).

Regulation D means Regulation D of the Board of Governors of the Federal Reserve System from time to time in effect and includes any successor or other regulation relating to reserve requirements applicable to member banks of the Federal Reserve System.

Regulatory Change means with respect to any Lender, any change on or after the Effective Date in any Legal Requirement (including, without limitation, Regulation D) or the adoption or making on or after such date of any interpretation, directive or request applying to a class of lenders including such Lender under any Legal Requirements (whether or not having the force of law) by any Governmental Authority.

Reimbursement Obligations means, as at any date, (i) the obligations of any Borrower then outstanding, or which may thereafter arise, in respect of Letters of Credit under this Agreement, to reimburse the applicable Issuers for the amount paid by such Issuers in respect of any drawing under such Letters of Credit and (ii) the obligations of the Canadian Borrower then outstanding, or which may thereafter arise, in respect of any Bankers' Acceptance purchased by any Canadian Lender or paid by it on maturity thereof. Except for Canadian Letters of Credit denominated in Canadian Dollars, Reimbursement Obligations in respect of any Letter of Credit shall at all times be payable in Dollars notwithstanding any such Letter of Credit being payable in a currency other than Dollars.

Request for Extension of Credit means a request for extension of credit duly executed by any responsible officer, which may include the president, chief executive officer, the chief financial officer, any vice president or the treasurer of U.S. Borrower, Canadian Borrower or U.K. Borrower, as the case may be, or any other Person duly authorized by one of such officers, appropriately completed and substantially in the form of Exhibit A-1 (U.S. Borrower), Exhibit A-2 (Canadian Borrower) or Exhibit A-3 (U.K. Borrower) attached hereto, as the case may be.

Requirements of Environmental Law means all requirements imposed by any law (including for example and without limitation The Resource Conservation and Recovery Act and The Comprehensive Environmental Response, Compensation, and Liability Act), rule, regulation, or order of any federal, state or local executive, legislative, judicial, regulatory or administrative agency, board or authority in effect at the applicable time which relate to (i) noise; (ii) pollution, protection or clean-up of the air, surface water, ground water or land; (iii) solid, gaseous or liquid waste generation, treatment, storage, disposal or transportation; (iv) exposure to Hazardous Substances; (v) the safety or health of employees or (vi) regulation of the manufacture, processing, distribution in commerce, use, discharge or storage of Hazardous Substances.

Reset Date has the meaning specified in Section 2.9(a).

Restricted Indebtedness means Borrowed Money Indebtedness of the Borrowers or any of their Subsidiaries, the payment, prepayment, redemption, repurchase or defeasance of which is restricted under Article 8 hereof.

Revolving Loan Maturity Date means the maturity of the Revolving Notes and the other U.S. Revolving Loan Obligations, Canadian Obligations and U.K. Obligations, March 31, 2004.

Revolving Loans means the U.S. Revolving Loans, the U.K. Revolving Loans and the Canadian Revolving Loans.

Revolving Notes means the U.S. Revolving Notes, the U.K. Revolving Notes, Canadian Dollar Revolving Notes and the Canadian Revolving Notes.

Security Agreements means (i) security agreements, each in Proper Form, executed or to be executed in favor of U.S. Agent, securing the U.S. Obligations, covering all of the real Property (other than real Property owned as of the Effective Date) upon which a Lien must be granted pursuant to Section 7.11 hereof and material personal Property (other than the Equity Interests described in clauses (ii) and (iv) of this definition) of U.S. Borrower and its Subsidiaries (other than Foreign Subsidiaries or Excluded Subsidiaries), (ii) security agreements, each in Proper Form, executed or to be executed in favor of U.S. Agent, securing the U.S. Obligations, covering all of the issued and outstanding Equity Interests in any Subsidiary of U.S. Borrower (other than Foreign Subsidiaries and Excluded Subsidiaries and other than Subsidiaries which are wholly-owned direct Subsidiaries of Foreign Subsidiaries) and 65% of the issued and outstanding Equity Interests in U.K. Borrower and Canadian Borrower, (iii) security agreements, each in Proper Form, executed or to be executed in favor of Canadian Agent, securing the Canadian Obligations, covering all of the real Property (other than real Property owned as of the Effective Date) upon which a Lien must be granted pursuant to Section 7.11 hereof and material personal Property of Canadian Borrower and each of its Subsidiaries (including all Equity Interests in any Subsidiary of Canadian Borrower), and (iv) security agreements, each in Proper Form, executed or to be executed in favor of U.K. Agent, securing the U.K. Obligations, covering all of the real Property (other than real Property owned as of the Effective Date) upon which a Lien must be granted pursuant to Section 7.11 hereof and material personal Property of U.K. Borrower and each of its Subsidiaries but which is not an Excluded Subsidiary (including all Equity Interests in any Subsidiary of U.K. Borrower which is not an Excluded Subsidiary), as the same may from time to time be amended, modified, restated or supplemented.

Security Documents means, collectively, the Security Agreements, the Financing Statements and any and all other security documents now or hereafter executed and delivered by any Obligor to secure all or any part of the Obligations, as any of them may from time to time be amended, modified, restated or supplemented.

Stated Rate means, with respect to any Lender, the effective weighted per annum rate of interest applicable to the Loans made by such Lender; provided, that if on any day such rate shall exceed the Ceiling Rate for that day, the Stated Rate shall be fixed at the Ceiling Rate on that day and on each day thereafter until the total amount of interest accrued at the Stated Rate on the unpaid principal balances of the Notes plus the Additional Interest equals the total amount of interest which would have accrued if there had been no Ceiling Rate. If the Notes mature (or are prepaid) before such equality is achieved, then, in addition to the unpaid principal and accrued interest then owing pursuant to the other provisions of the Loan Documents, the applicable Borrower promises to pay on demand to the order of the holder of the applicable Note interest in an amount equal to the excess (if any) of (a) the lesser of (i) the total interest which would have accrued on such Note if the Stated Rate had been defined as equal to the Ceiling Rate from time to time in effect and (ii) the total interest which would have accrued on such Note if the Stated Rate were not so prohibited from exceeding the Ceiling Rate, over (b) the total interest actually accrued on such Note to such maturity (or prepayment) date. Without notice to any Borrower or any other Person, the Stated Rate shall automatically fluctuate upward and downward in accordance with the provisions of this definition.

Subsidiary means, as to a particular parent Corporation, any Corporation of which more than 50% of the indicia of equity rights (whether outstanding capital stock or otherwise) is at the time directly or indirectly owned by, such parent Corporation.

Synthetic Purchase Agreement means any swap, derivative or other agreement or combination of agreements pursuant to which any Borrower or a Subsidiary of any Borrower is or may become obligated to make (i) any payment in connection with a purchase by any third party from a Person other than the applicable Borrower or a Subsidiary of the applicable Borrower of any Equity Interest or Restricted Indebtedness or (ii) any payment (other than on account of a permitted purchase by it of any Equity Interest or any Restricted Indebtedness) the amount of which is determined by reference to the price or value at any time of any Equity Interest or Restricted Indebtedness; provided that no phantom stock or similar plan providing for payments only to current or former directors, officers or employees of any Borrower or Subsidiaries of any Borrower (or to their heirs or estates) shall be deemed to be a Synthetic Purchase Agreement.

Taxes shall have the meaning ascribed to it in Section 4.1(d) hereof.

Termination Date means the earlier of (a) the Revolving Loan Maturity Date or (b) the date specified by either Agent in accordance with Section 9.1 hereof.

Term Loan means a Loan made pursuant to Section 2.1(e) hereof.

Term Loan Lender means each U.S. Lender with any outstanding Term Loans.

Term Loan Maturity Date means March 31, 2006.

Term Loan Obligations means, as at any date of determination thereof, the aggregate principal amount of Term Loans outstanding hereunder on such date.

Term Notes means the Notes of U.S. Borrower evidencing the Term Loans, in substantially the form of Exhibit J hereto.

Three-Month Secondary CD Rate means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board of Governors of the Federal Reserve System of the United States of America through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board of Governors of the Federal Reserve System of the United States of America, be published in Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding Business Day) by the U.S. Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

Total Canadian Exposure means, at any time and without duplication, the sum of the aggregate principal amounts of the then outstanding Canadian Revolving Loans, then outstanding Bankers' Acceptance Liabilities and then outstanding Letter of Credit Liabilities in respect of Canadian Letters of Credit, in each case expressed in Dollars using, where applicable, the then current Exchange Rate.

U.K. Borrowing Base means, as at any date, the amount of the U.K. Borrowing Base shown on the Borrowing Base Certificate then most recently delivered pursuant to Section 7.2(f) hereof, determined by calculating the amount equal to the sum of (x) 70% of the aggregate amount of all Eligible Accounts of the U.K. Borrower and its Subsidiaries which are Foreign Subsidiaries (other than Excluded Subsidiaries) at said date and (y) 50% of the aggregate amount of all Amounts Recoverable on Contracts of the U.K. Borrower and its Subsidiaries which are Foreign Subsidiaries (other than Excluded Subsidiaries) at said date. In the absence of a current Borrowing Base Certificate, U.K. Agent shall determine the U.K. Borrowing Base from time to time in its reasonable discretion, taking into account all information reasonably available to it, and the U.K. Borrowing Base from time to time so determined shall be the U.K. Borrowing Base for all purposes of this Agreement until a current Borrowing Base Certificate, in Proper Form, is furnished to and accepted by U.K. Agent. For purposes of calculating the U.K. Borrowing Base, all amounts or values expressed in Pounds or Euros shall be converted into Dollars at the Exchange Rate in effect as of the date of the applicable Borrowing Base Certificate.

U.K. Commitment means, as to any U.K. Lender, the obligation, if any, of such U.K. Lender to make U.K. Revolving Loans, incur or participate in Letter of Credit Liabilities relating to U.K. Letters of Credit in an aggregate principal amount at any one time outstanding up to (but not exceeding) the amount, if any, set forth opposite such U.K. Lender's name on the signature pages hereof under the caption "U.K. Commitment", or otherwise provided for in an Assignment and Acceptance (as the same may be increased or reduced from time to time pursuant to Section 2.4 hereof).

U.K. Lender means each lender party hereto with any U.K. Commitment or any outstanding U.K. Obligations.

U.K. Letters of Credit has the meaning assigned to such term in Section 2.2 hereof.

U.K. Obligations means, as at any date of determination thereof, the sum of the following (determined without duplication): (i) the aggregate principal amount of U.K. Revolving Loans outstanding hereunder on such date, plus (ii) the aggregate amount of Letter of Credit Liabilities outstanding on such date relating to U.K. Letters of Credit. For purposes of calculating the aggregate amount of U.K. Obligations, all amounts or values expressed in Pounds or Euros shall be converted into Dollars at the Exchange Rate in effect as of the date of determination.

U.K. Revolving Loan means any revolving credit loan made pursuant to Section 2.1(c) hereof.

U.K. Revolving Notes means the Notes of U.K. Borrower evidencing the U.K. Revolving Loans, in the form of Exhibit L hereto.

Unfunded Liabilities means, with respect to any Plan, at any time, the amount (if any) by which (a) the present value of all benefits under such Plan exceeds (b) the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent actuarial valuation report for such Plan, but only to the extent that such excess represents a potential liability of any member of the Controlled Group to the PBGC or a Plan under Title IV of ERISA and, with respect to any Plan governed by Applicable Canadian Pension Legislation, the amount (if any) by which the solvency liabilities under such Plan (determined in accordance with actuarial assumptions contained in the most recent actuarial valuation report for such Plan) exceed the fair market value of the assets of such Plan. With respect to multi-employer Plans, the term "Unfunded Liabilities" shall also include contingent liability for withdrawal liability under Section 4201 of ERISA or under Applicable Canadian Pension Legislation to all multi-employer Plans to which any Borrower or any member of a Controlled Group for employees of any Borrower contributes in the event of complete withdrawal from such plans.

U.S. Borrowing Base means, as at any date, the amount of the U.S. Borrowing Base shown on the Borrowing Base Certificate then most recently delivered pursuant to Section 7.2(f) hereof, determined by calculating the amount equal to:

- (i) the sum of 80% of the aggregate amount of all Eligible Accounts of the U.S. Borrower and its Subsidiaries (other than Foreign Subsidiaries and Excluded Subsidiaries) at said date, plus
- (ii) the sum of (x) 25% of that portion of Eligible Inventory of the U.S. Borrower and its Subsidiaries (other than Foreign Subsidiaries and Excluded Subsidiaries) at said date (determined at the lower of cost or market on a consistent basis) which consists of work-in-process relating to projects for customers that are not account debtors with respect to any Accounts owing to any Borrower and any of their Subsidiaries which are not Eligible Accounts and (y) 50% of the aggregate amount of all other Eligible Inventory of U.S. Borrower and its Subsidiaries (other than Foreign Subsidiaries and Excluded Subsidiaries) at said date (determined at the lower of cost or market on a consistent basis); provided that the amount calculated pursuant to this clause (ii) shall not exceed 50% of the U.S. Borrowing Base.

In the absence of a current Borrowing Base Certificate, U.S. Agent shall determine the U.S. Borrowing Base from time to time in its reasonable discretion, taking into account all information reasonably available to it, and the U.S. Borrowing Base from time to time so determined shall be the U.S. Borrowing Base for all purposes of this Agreement until a current Borrowing Base Certificate, in Proper Form, is furnished to and accepted by U.S. Agent.

U.S. Commitment means, as to any U.S. Lender, the obligation, if any, of such U.S. Lender to make U.S. Revolving Loans and incur or participate in Letter of Credit Liabilities relating to U.S. Letters of Credit in an aggregate principal amount at any one time outstanding up to (but not exceeding) the amount, if any, set forth opposite such U.S. Lender's name on the signature pages hereof under the caption "U.S. Commitment", or otherwise provided for in an Assignment and

Acceptance (as the same may be increased or reduced from time to time pursuant to Section 2.4 hereof).

U.S. Lender means each lender party hereto with any U.S. Commitment or any outstanding U.S. Obligations.

U.S. Letters of Credit shall have the meaning assigned to such term in Section 2.2 hereof.

U.S. Loan means a U.S. Revolving Loan or a Term Loan.

U.S. Obligations means U.S. Revolving Loan Obligations and Term Loan Obligations.

U.S. Revolving Loan means a Loan made pursuant to Section 2.1(a) hereof.

U.S. Revolving Loan Obligations means, as at any date of determination thereof, the sum of the following (determined without duplication): (i) the aggregate principal amount of U.S. Revolving Loans outstanding hereunder on such date plus (ii) the aggregate amount of the Letter of Credit Liabilities outstanding on such date relating to U.S. Letters of Credit.

U.S. Revolving Notes means the Notes of U.S. Borrower evidencing the U.S. Revolving Loans, in the form of Exhibit D hereto.

1.2 Miscellaneous. The words "hereof," "herein," and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement.

2. Commitments; Loans; BA's and Letters of Credit.

2.1 Loans and BA's. Each Lender severally agrees, subject to all of the terms and conditions of this Agreement (including, without limitation, Sections 5.1 and 5.2 hereof), to make Loans and, in the case of Canadian Lenders, to accept and purchase Bankers' Acceptances, as follows:

(a) U.S. Revolving Loans. From time to time on or after the Effective Date and during the Availability Period, each U.S. Lender shall make loans under this Section 2.1(a) to U.S. Borrower in an aggregate principal amount at any one time outstanding (including its Commitment Percentage of all Letter of Credit Liabilities relating to U.S. Letters of Credit at such time) up to but not exceeding such U.S. Lender's Commitment Percentage of the Maximum U.S. Available Amount. Subject to the conditions in this Agreement, any such U.S. Revolving Loan repaid prior to the Termination Date may be reborrowed pursuant to the terms of this Agreement; provided, that any and all such U.S. Revolving Loans shall be due and payable in full on the Termination Date. Loans made under this Section 2.1(a) shall be made and denominated in Dollars. The aggregate of all U.S. Revolving Loans to be made by the U.S. Lenders in connection with a particular borrowing shall be equal to the lesser of (i) the unutilized portion of the U.S. Commitments or (ii) \$500,000 or any integral multiple of \$100,000 in excess thereof.

(b) Canadian Revolving Loans. From time to time on or after the Effective Date and during the Availability Period, each Canadian Lender shall make loans under this Section 2.1(b) to Canadian Borrower in an aggregate principal amount at any one time outstanding (including such Canadian Lender's Commitment Percentage of all Bankers' Acceptance Liabilities and all Letter of Credit Liabilities relating to Canadian Letters of Credit at such time) up to but not exceeding such Canadian Lender's Commitment Percentage of the Maximum Canadian Available Amount. Subject to the conditions in this Agreement, any such Canadian Revolving Loan repaid prior to the Termination Date may be reborrowed pursuant to the terms of this Agreement; provided, that any and all such Canadian Revolving Loans shall be due and payable in full on the Termination Date. Loans made under this Section 2.1(b) may, at the option of Canadian Borrower, be made and denominated either in Dollars or in Canadian Dollars (but all Loans to be made under a particular borrowing must be made and denominated in the same currency). The aggregate of all Canadian Revolving Loans to be made by the Canadian Lenders in connection with a particular borrowing shall be equal to the lesser of (i) the unutilized portion of the Canadian Commitments or (ii) \$500,000 or any integral multiple of \$100,000 in excess thereof (if the Loans are denominated in Dollars) or C\$500,000 or any integral multiple of C\$100,000 in excess thereof (if the Loans are denominated in Canadian Dollars).

(c) U.K. Revolving Loans. From time to time on or after the Effective Date and during the Availability Period, each U.K. Lender shall make loans under this Section 2.1(c) to U.K. Borrower in an aggregate principal amount at any one time outstanding (including its Commitment Percentage of all Letter of Credit Liabilities relating to U.K. Letters of Credit at such time) up to but not exceeding such U.K. Lender's Commitment Percentage of the Maximum U.K. Available Amount. Subject to the conditions in this Agreement, any such U.K. Revolving Loan repaid prior to the Termination Date may be reborrowed pursuant to the terms of this Agreement; provided, that any and all such U.K. Revolving Loans shall be due and payable in full on the Termination Date. Loans made under this Section 2.1(c) shall be made and denominated in Dollars. The aggregate of all U.K. Revolving Loans to be made by the U.K. Lenders in connection with a particular borrowing shall be equal to the lesser of (i) the unutilized portion of the U.S. Commitments or (ii) \$500,000 or any integral multiple of \$100,000 in excess thereof.

(d) Bankers' Acceptances. From time to time on or after the Effective Date and during the Availability Period, each Canadian Lender shall accept and purchase Bankers' Acceptances drawn on it under Section 2.3 hereof by Canadian Borrower in an aggregate principal amount at any one time outstanding (including such Canadian Lender's Commitment Percentage of all Canadian Revolving Loans outstanding at such time and all Letter of Credit Liabilities relating to Canadian Letters of Credit at such time) up to but not exceeding such Canadian Lender's Commitment Percentage of the Maximum Canadian Available Amount. No Bankers' Acceptance may be made or accepted on or after the Termination Date and all outstanding Bankers' Acceptances shall mature no later than the end of the Availability Period. Loans made by way of Bankers' Acceptances shall be made and denominated in Canadian Dollars.

(e) Term Loans. On the Effective Date, each Term Loan Lender shall make a loan to U.S. Borrower in the amount set forth opposite such Term Loan Lender's name on the signature pages hereof under the caption "Term Loans".

(f) Chapter 346 Not Applicable. Borrowers, Agents and the Lenders agree pursuant to Chapter 346 ("Chapter 346") of the Texas Finance Code, that Chapter 346 (which relates to open- end line of credit revolving loan accounts) shall not apply to this Agreement, the Notes or any Obligation and that neither the Notes nor any Obligation shall be governed by Chapter 346 or subject to its provisions in any manner whatsoever.

2.2 Letters of Credit.

(a) Letters of Credit. Subject to the terms and conditions of this Agreement, and on the condition that aggregate Letter of Credit Liabilities relating to U.S. Letters of Credit shall never exceed \$25,000,000 and that aggregate Letter of Credit Liabilities relating to Canadian Letters of Credit shall never exceed \$5,000,000 and that aggregate Letter of Credit Liabilities relating to U.K. Letters of Credit shall never exceed \$5,000,000, (i) U.S. Borrower shall have the right, in addition to U.S. Revolving Loans provided for in Section 2.1(a) hereof, to utilize the U.S. Commitments from time to time during the Availability Period by obtaining the issuance of letters of credit if U.S. Borrower shall so request in the notice referred to in Section 2.2(b)(i) hereof (such letters of credit as any of them may be amended, supplemented, extended or confirmed from time to time, being herein collectively called the "U.S. Letters of Credit"), Canadian Borrower shall have the right, in addition to Canadian Revolving Loans provided for in Section 2.1(b) hereof and Bankers' Acceptances provided for in Section 2.1(d) hereof, to utilize the Canadian Commitments from time to time during the Availability Period by obtaining the issuance of letters of credit if Canadian Borrower shall so request in the notice referred to in Section 2.2(b)(i) hereof (such letters of credit as any of them may be amended, supplemented, extended or confirmed from time to time, being herein collectively called the "Canadian Letters of Credit") and U.K. Borrower shall have the right, in addition to U.K. Revolving Loans provided for in Section 2.1(c) hereof, to utilize the U.K. Commitments from time to time during the Availability Period by obtaining the issuance of letters of credit if U.K. Borrower shall so request in the notice referred to in Section 2.2(b)(i) hereof (such letters of credit as any of them may be amended, supplemented, extended or confirmed from time to time, being herein collectively called the "U.K. Letters of Credit") and (ii) Chase agrees to issue U.S. Letters of Credit, RBC agrees to issue Canadian Letters of Credit and Chase U.K. agrees to issue U.K. Letters of Credit. The Letters of Credit will, at the request of the applicable Borrower, be issued in currencies other than those expressly provided for in this Agreement so long as the applicable Agent is reasonably satisfied that such currency is readily available in the required amounts and that such currency selection is not otherwise disadvantageous to any Agent or any Lender. Upon the date of the issuance of a Letter of Credit, the applicable Issuer shall be deemed, without further action by any party hereto, to have sold to each U.S. Lender, Canadian Lender or U.K. Lender, as the case may be, and each such U.S. Lender, Canadian Lender or U.K. Lender, as the case may be, shall be deemed, without further action by any party hereto, to have purchased from the applicable Issuer, a participation, to the extent of such Lender's Commitment Percentage, in such Letter of Credit and the related Letter of Credit Liabilities, which participation shall terminate on the earlier of the expiration date of such Letter of Credit or the Termination Date. Any Letter of Credit that shall have an expiration date after the date which is five (5) Business Days prior to the end of the Availability Period shall be subject to Cover or backed by a letter of credit in form and substance, and issued by a Person, acceptable to the applicable Agent in its sole discretion, such Cover to be delivered to the applicable Agent no later than the date which is one (1) year prior to the end of the Availability Period. Chase or, with the prior approval of U.S. Borrower, U.S. Agent and the

applicable U.S. Lender, another U.S. Lender shall be the Issuer of each U.S. Letter of Credit; RBC or, with the prior approval of Canadian Borrower, Canadian Agent and the applicable Canadian Lender, another Canadian Lender shall be the Issuer of each Canadian Letter of Credit and Chase U.K. or, with the prior approval of U.K. Borrower, U.K. Agent and the applicable U.K. Lender, another U.K. Lender shall be the Issuer of each U.K. Letter of Credit. Except as provided above, all U.S. Letters of Credit and U.K. Letters of Credit shall be denominated in Dollars and all Canadian Letters of Credit shall, at the option of Canadian Borrower, be denominated in either Dollars or Canadian Dollars. Fees due in respect of a U.S. Letter of Credit or a U.K. Letter of Credit shall be payable in Dollars and fees due in respect of a Canadian Letter of Credit shall be payable (i) in Dollars, if such Letter of Credit is denominated in Dollars and (ii) in Canadian Dollars if such Letter of Credit is denominated in Canadian Dollars or any other currency. Letters of credit previously issued under the provisions of the Loan Agreement dated November 20, 1998 described in Section 11.21 hereof shall constitute "Letters of Credit" hereunder and letters of credit issued by U.S. Agent under the EXIM Facility and subsequently designated by U.S. Borrower for treatment as "Letters of Credit" hereunder (such designation to be subject to the same conditions and restrictions as would apply if such letter of credit were being newly issued hereunder, including without limitation the payment of fees relating to the issuance of Letters of Credit) shall constitute "Letters of Credit" hereunder.

(b) Additional Provisions. The following additional provisions shall apply to each Letter of Credit:

(i) U.S. Borrower, Canadian Borrower or U.K. Borrower, as the case may be, shall give the appropriate Agent notice requesting each issuance of a Letter of Credit hereunder as provided in Section 4.3 hereof and shall furnish such additional information regarding such transaction as such Agent may reasonably request. Upon receipt of such notice, such Agent shall promptly notify each U.S. Lender, Canadian Lender or U.K. Lender, as the case may be, of the contents thereof and of such Lender's Commitment Percentage of the amount of such proposed Letter of Credit.

(ii) No U.S. Letter of Credit may be issued if after giving effect thereto the sum of (A) the aggregate outstanding principal amount of U.S. Revolving Loans plus (B) the aggregate Letter of Credit Liabilities relating to U.S. Letters of Credit would exceed the Maximum U.S. Available Amount. No Canadian Letter of Credit may be issued if after giving effect thereto the sum of (A) the aggregate outstanding principal amount of Canadian Revolving Loans plus (B) the aggregate Letter of Credit Liabilities relating to Canadian Letters of Credit plus (C) the aggregate Bankers' Acceptance Liabilities would exceed the Maximum Canadian Available Amount. No U.K. Letter of Credit may be issued if after giving effect thereto the sum of (A) the aggregate outstanding principal amount of U.K. Revolving Loans plus (B) the aggregate Letter of Credit Liabilities relating to U.K. Letters of Credit would exceed the Maximum U.K. Available Amount. On each day during the period commencing with the issuance of any Letter of Credit and until such Letter of Credit shall have expired or been terminated, the U. S. Commitment, Canadian Commitment or U.K. Commitment, as the case may be, of each applicable Lender shall be deemed to be utilized for all purposes hereof, including Section 2.5(a), in an amount equal to such Lender's

Commitment Percentage of the amount then available for drawings under such Letter of Credit (or any unreimbursed drawings under such Letter of Credit).

(iii) Upon receipt from the beneficiary of any Letter of Credit of any demand for payment thereunder, the applicable Issuer shall notify the Agents and thereafter the U.S. Agent, the Canadian Agent or the U.K. Agent, as the case may be, shall promptly notify the applicable Borrower and each applicable Lender as to the amount to be paid as a result of such demand and the payment date therefor. If at any time prior to the earlier of the expiration date of a Letter of Credit or the Termination Date any applicable Issuer shall have made a payment to a beneficiary of a Letter of Credit in respect of a drawing under such Letter of Credit, each applicable Lender will pay to the U.S. Agent, the Canadian Agent or the U.K. Agent, as the case may be, immediately upon demand by such Issuer at any time during the period commencing after such payment until reimbursement thereof in full by the applicable Borrower, an amount equal to such Lender's Commitment Percentage of such payment, together with interest on such amount for each day from the date of demand for such payment (or, if such demand is made after 11:00 a.m. Houston, Texas time (in the case of a U.S. Letter of Credit) or 12:00 noon Toronto, Ontario time (in the case of a Canadian Letter of Credit) or 11:00 a.m. London, United Kingdom time (in the case of a U.K. Letter of Credit) on such date, from the next succeeding Business Day) to the date of payment by such Lender of such amount at a rate of interest per annum equal to (i) in respect of U.S. Letters of Credit or a U.K. Letter of Credit, the Federal Funds Rate, (ii) in respect of Canadian Letters of Credit which are denominated in Dollars, the Base Rate plus two percent (2%) and (iii) in respect of Canadian Letters of Credit which are denominated in Canadian Dollars, the CDOR Rate. To the extent that it is ultimately determined that the applicable Borrower is relieved of its obligation to reimburse the applicable Issuer because of such Issuer's gross negligence or willful misconduct in determining that documents received under any applicable Letter of Credit comply with the terms thereof, the applicable Issuer shall be obligated to refund to the paying Lenders all amounts paid to such Issuer to reimburse Issuer for the applicable drawing under such Letter of Credit.

(iv) U.S. Borrower, the Canadian Borrower or U.K. Borrower, as the case may be, shall be irrevocably and unconditionally obligated forthwith to reimburse the appropriate Agent, on the date on which such Agent notifies U.S. Borrower, the Canadian Borrower or U.K. Borrower, as the case may be, of the date and amount of any payment by the applicable Issuer of any drawing under a Letter of Credit, for the amount paid by such Issuer upon such drawing, without presentment, demand, protest or other formalities of any kind, all of which are hereby waived. Such reimbursement may, subject to satisfaction of the conditions in Sections 5.1 and 5.2 hereof, the limitations on size contained in Section 2.1 and to the Maximum U.S. Available Amount, Maximum Canadian Available Amount or Maximum U.K. Available Amount, as the case may be (after adjustment in the same to reflect the elimination of the corresponding Letter of Credit Liability), be made by the borrowing of Loans or, in the case of the Canadian Borrower, by the issuance, acceptance and purchase of Bankers' Acceptances. The applicable Agent will pay to each Lender such Lender's Commitment Percentage of all amounts received from U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, for application in payment, in whole or in part, of the Reimbursement Obligation in respect of any Letter of Credit, but only to the

extent such Lender has made payment to the applicable Agent in respect of such Letter of Credit pursuant to clause (iii) above.

(v) U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, will pay to the appropriate Agent at the Principal Office of such Agent for the account of each applicable Lender a letter of credit fee with respect to each Letter of Credit equal to the greater of (x) \$500 or (y) the Margin Percentage then in effect with respect to LIBOR Borrowings multiplied by the daily average amount available for drawings under each Letter of Credit (and computed on the basis of the actual number of days elapsed in a year composed of 360 days), in each case for the period from and including the date of issuance of such Letter of Credit to and including the date of expiration or termination thereof, such fee to be due and payable quarterly in arrears on each three (3) month anniversary of the issuance of the applicable Letter of Credit and upon expiration or termination of the applicable Letter of Credit. The applicable Agent will pay to each applicable Lender, promptly after receiving any payment in respect of letter of credit fees referred to in this clause (v), an amount equal to the product of such Lender's Commitment Percentage times the amount of such fees. In addition to and cumulative of the above described fees, U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, shall pay to the appropriate Agent, for the account of the applicable Issuer, in advance on the date of the issuance of the applicable Letter of Credit, a fronting fee in an amount equal to 1/8% of the face amount of the applicable Letter of Credit (such fronting fee to be retained by the applicable Issuer for its own account).

(vi) The issuance by the applicable Issuer of each Letter of Credit shall, in addition to the conditions precedent set forth in Section 5 hereof, be subject to the conditions precedent (A) that such Letter of Credit shall be in such form and contain such terms as shall be reasonably satisfactory to applicable Agent, and (B) that U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, shall have executed and delivered such Applications and other instruments and agreements relating to such Letter of Credit as the applicable Agent shall have reasonably requested and are not inconsistent with the terms of this Agreement. In the event of a conflict between the terms of this Agreement and the terms of any Application, the terms hereof shall control.

(vii) Each Issuer will send to U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, and each applicable Lender, immediately upon issuance of any Letter of Credit issued by such Issuer or any amendment thereto, a true and correct copy of such Letter of Credit or amendment.

(c) Indemnification; Release. U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, hereby indemnifies and holds harmless each Agent, each Lender and each Issuer from and against any and all claims, damages, losses, liabilities, costs or expenses which such Agent, such Lender or such Issuer may incur (or which may be claimed against such Agent, such Lender or such Issuer by any Person whatsoever), REGARDLESS OF WHETHER CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE OF ANY OF THE INDEMNIFIED PARTIES, in connection with the execution and delivery of any Letter of Credit or transfer of or payment or failure to pay under any Letter of Credit; provided that U.S. Borrower,

the Canadian Borrower or the U.K. Borrower, as the case may be, shall not be required to indemnify or hold harmless any party seeking indemnification for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (i) the willful misconduct or gross negligence of the party seeking indemnification or exoneration, or (ii) the failure by the party seeking indemnification to pay under any Letter of Credit after the presentation to it of a request required to be paid under applicable law. U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, hereby releases, waives and discharges each Agent, each Lender and each Issuer from any claims, causes of action, damages, losses, liabilities, reasonable costs or expenses which may now exist or may hereafter arise, REGARDLESS OF WHETHER CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE OF ANY OF THE INDEMNIFIED PARTIES, by reason of or in connection with the failure of any Agent, any Issuer or any other Lender to fulfill or comply with its obligations to such Agent, such Lender or such Issuer, as the case may be, hereunder (but nothing herein contained shall affect any rights U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, may have against such defaulting party or may have in respect of gross negligence or willful misconduct). Nothing in this Section 2.2(c) is intended to limit the obligations of U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, under any other provision of this Agreement.

(d) Additional Costs in Respect of Letters of Credit. Subject to Sections 11.7 and 11.17 hereof, if as a result of any Regulatory Change there shall be imposed, modified or deemed applicable any tax (other than any tax based on or measured by net income), reserve, special deposit or similar requirement against or with respect to or measured by reference to Letters of Credit issued or to be issued hereunder or participations in such Letters of Credit, and the result shall be to increase the cost to any Lender of issuing or maintaining any Letter of Credit or any participation therein, or materially reduce any amount receivable by any Lender hereunder in respect of any Letter of Credit or any participation therein (which increase in cost, or reduction in amount receivable, shall be the result of such Lender's reasonable allocation of the aggregate of such increases or reductions resulting from such event), then such Lender shall notify U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, through the appropriate Agent (which notice shall be accompanied by a statement setting forth in reasonable detail the basis for the determination of the amount due), and within 15 Business Days after demand therefor by such Lender through such Agent, U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, shall pay to such Lender, from time to time as specified by such Lender, such additional amounts as shall be sufficient to compensate such Lender for such increased costs or reductions in amount. Such statement as to such increased costs or reductions in amount incurred by such Lender, submitted by such Lender to U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, shall be conclusive as to the amount thereof, absent manifest error, and may be computed using any reasonable averaging and attribution method. Each Lender will notify U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, through the appropriate Agent of any event occurring after the date of this Agreement which will entitle such Lender to compensation pursuant to this Section 2.2(d) as promptly as practicable after any executive officer of such Lender obtains knowledge thereof and determines to request such compensation, and (if so requested by U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, through the appropriate Agent) will designate a different lending office of such Lender for the issuance or maintenance of Letters of Credit by such Lender or will take such other action as U.S. Borrower, the Canadian Borrower or the U.K. Borrower, as the case may be, may reasonably request if such designation or

action is consistent with the internal policy of such Lender and legal and regulatory restrictions, can be undertaken at no additional cost, will avoid the need for, or reduce the amount of, such compensation and will not, in the sole opinion of such Lender, be disadvantageous to such Lender (provided that no such U.S. Lender shall have any obligation so to designate a different lending office which is not located in the United States of America, no such Canadian Lender shall have any obligation so to designate a different lending office which is not located in Canada and no such U.K. Lender shall have any obligation so to designate a different lending office which is not located in the United Kingdom).

2.3 Certain Provisions Relating to Bankers' Acceptances.

(a) Subject to the terms and conditions hereof, each Canadian Lender severally agrees to accept and purchase Bankers' Acceptances drawn upon it by the Canadian Borrower denominated in Canadian Dollars. The Canadian Borrower shall notify the Canadian Agent by irrevocable written notice (each a "Bankers' Acceptance Notice") by 12:00 noon (Toronto, Ontario time) two (2) Business Days prior to the proposed date of any borrowing by way of Bankers' Acceptances. Each borrowing by way of Bankers' Acceptances shall be in a minimum aggregate face amount of C\$1,000,000.00 and integral multiples of C\$100,000.00 in excess thereof. The face amount of each Bankers' Acceptance shall be C\$100,000.00 or any integral multiple thereof. Each Bankers' Acceptance Notice shall be in the form of Exhibit G.

(1) Bankers' Acceptances shall be issued and shall mature on a Business Day. Each Bankers' Acceptance shall have a term of 30, 60, 90 or, if available, 180 days excluding days of grace and shall mature on or before the Revolving Loan Maturity Date and shall be in form and substance reasonably satisfactory to each Canadian Lender.

(2) To facilitate the acceptance of Bankers' Acceptances under this Agreement, the Canadian Borrower shall, upon execution of this Agreement and from time to time as required, provide to the Canadian Agent drafts, in form satisfactory to the Canadian Agent, duly executed and endorsed in blank by the Canadian Borrower in quantities sufficient for each Canadian Lender to fulfill its obligations hereunder. In addition, the Canadian Borrower hereby appoints each Canadian Lender as its attorney to sign and endorse on its behalf, in handwriting or by facsimile or mechanical signature as and when deemed necessary by such Canadian Lender, blank forms of Bankers' Acceptances. The Canadian Borrower recognizes and agrees that all Bankers' Acceptances signed and/or endorsed on its behalf by a Canadian Lender shall bind the Canadian Borrower as fully and effectually as if signed in the handwriting of and duly issued by the proper signing officer of the Canadian Borrower. Each Canadian Lender is hereby authorized to issue such Bankers' Acceptances endorsed in blank in such face amounts as may be determined by such Canadian Lender provided that the aggregate amount thereof is equal to the aggregate amount of Bankers' Acceptances required to be accepted by such Canadian Lender. No Canadian Lender shall be responsible or liable for its failure to accept a Bankers' Acceptance if the cause of such failure is, in whole or in part, due to the failure of the Canadian Borrower to provide duly executed and endorsed drafts to the Canadian Agent on a timely basis nor shall any Canadian Lender be liable for any damage, loss or other claim arising by reason of any loss or improper use of any such instrument except loss or improper use arising by reason of the

gross negligence or willful misconduct of such Canadian Lender, its officers, employees, agents or representatives. Each Canadian Lender shall maintain a record with respect to Bankers' Acceptances (i) received by it from the Canadian Agent in blank hereunder, (ii) voided by it for any reason, (iii) accepted by it hereunder, (iv) purchased by it hereunder and (v) canceled at their respective maturities. Each Canadian Lender further agrees to retain such records in the manner and for the statutory periods provided in the various Canadian provincial or federal statutes and regulations which apply to such Canadian Lender.

(3) Drafts of the Canadian Borrower to be accepted as Bankers' Acceptances hereunder shall be duly executed by a duly authorized officer of the Canadian Borrower or by a Canadian Lender on its behalf as aforesaid. Notwithstanding that any person whose signature appears on any Bankers' Acceptance as a signatory for the Canadian Borrower or for a Canadian Lender as attorney for Canadian Borrower may no longer be an authorized signatory for the Canadian Borrower or such Canadian Lender, as the case may be, at the date of issuance of a Bankers' Acceptance, such signature shall nevertheless be valid and sufficient for all purposes as if such authority had remained in force at the time of such issuance and any such Bankers' Acceptance so signed shall be binding on the Canadian Borrower.

(4) Promptly following receipt of a Bankers' Acceptance Notice, the Canadian Agent shall so advise the Canadian Lenders and shall advise each Canadian Lender of the face amount of each Bankers' Acceptance to be accepted by it and the term thereof. The aggregate face amount of Bankers' Acceptances to be accepted by a Canadian Lender shall be determined by the Canadian Agent by reference to the respective Canadian Commitments of the Canadian Lenders, except that, if the face amount of a Bankers' Acceptance, which would otherwise be accepted by a Canadian Lender, would not be C\$100,000.00 or an integral multiple thereof, such face amount shall be increased or reduced by the Canadian Agent in its sole and unfettered discretion to the nearest integral multiple of C\$100,000.00.

(5) Each Bankers' Acceptance to be accepted by a Canadian Lender shall be accepted at such Canadian Lender's office shown on the signature pages hereof or as otherwise designated by such Canadian Lender from time to time.

(6) On the relevant borrowing date, each Canadian Lender severally agrees to purchase from the Canadian Borrower, at the face amount thereof discounted by the Applicable BA Discount Rate, any Bankers' Acceptance accepted by it and provide to the Canadian Agent, for the account of the Canadian Borrower, the BA Discount Proceeds in respect thereof after deducting therefrom the amount of the Acceptance Fee payable by the Canadian Borrower to such Canadian Lender under Section 2.3(c) in respect of such Bankers' Acceptance.

(7) Each Canadian Lender may at any time and from time to time hold, sell, rediscount or otherwise dispose of any or all Bankers' Acceptances accepted and purchased by it.

(8) The Canadian Borrower waives presentment for payment and any other defense to payment of any amounts due to a Canadian Lender in respect of a Bankers' Acceptance accepted by it pursuant to this Agreement which might exist solely by reason of such Bankers' Acceptance being held, at the maturity thereof, by such Canadian Lender in its own right and the Canadian Borrower agrees not to claim any days of grace if such Canadian Lender as holder sues the Canadian Borrower on the Bankers' Acceptances for payment of the amount payable by the Canadian Borrower thereunder.

(b) With respect to each Bankers' Acceptance, the Canadian Borrower, prior to the occurrence and continuation of a Default, may give irrevocable telephone or written notice (or such other method of notification as may be agreed upon between the Canadian Agent and the Canadian Borrower) to the Canadian Agent at or before 12:00 noon (Toronto, Ontario time) two (2) Business Days prior to the maturity date of such Bankers' Acceptance followed by written confirmation electronically transmitted to the Canadian Agent on the same day, of the Canadian Borrower's intention to issue one or more Bankers' Acceptance on such maturity date (each a "Refunding Bankers' Acceptance") to provide for the payment of such maturing Bankers' Acceptance (it being understood that payments by the Canadian Borrower and fundings by the Canadian Lenders in respect of each maturing Bankers' Acceptance and each related Refunding Bankers' Acceptance shall be made on a net basis reflecting the difference between the face amount of such maturing Bankers' Acceptance and the BA Discount Proceeds (net of the applicable Acceptance Fee) of such Refunding Bankers' Acceptance). Any funding on account of any maturing Bankers' Acceptance must be made at or before 12:00 noon (Toronto, Ontario time) on the maturity date of such Bankers' Acceptance. If the Canadian Borrower fails to give such notice, then subject to satisfaction of the conditions in Section 5 hereof and to the Maximum Canadian Available Amount, the Canadian Borrower shall be irrevocably deemed to have requested and to have been advanced a Canadian Prime Loan in the face amount of such maturing Bankers' Acceptance on the maturity date of such Bankers' Acceptance from the Canadian Lender which accepted such maturing Bankers' Acceptance, which Canadian Prime Loan shall thereafter bear interest as such in accordance with the provisions hereof until paid in full.

(c) An Acceptance Fee shall be payable by the Canadian Borrower to each Canadian Lender in advance (in the manner specified in Section 2.3(a)(6)) in respect of, and as a condition precedent to the acceptance by such Canadian Lender of, a Bankers' Acceptance to be accepted by such Canadian Lender calculated at the rate per annum equal to the Margin Percentage applicable to LIBOR Borrowings, calculated on the face amount of such Bankers' Acceptance and computed on the basis of the number of days in the term of such Bankers' Acceptance and a year of 365 days.

2.4 Terminations, Reductions or Reallocations of Commitments.

(a) Mandatory. On the Termination Date, all U.S. Commitments, Canadian Commitments and U.K. Commitments shall be terminated in their entirety.

(b) Optional. U.S. Borrower, Canadian Borrower or U.K. Borrower, as the case may be, shall have the right to terminate or reduce the unused portion of the U.S. Commitments, the Canadian Commitments or the U.K. Commitments, as the case may be, at any time or from time to time, provided that (i) U.S. Borrower, Canadian Borrower or U.K. Borrower, as the case may be,

shall give notice of each such termination or reduction to the appropriate Agent as provided in Section 4.3 hereof and (ii) each such partial reduction shall be in an integral multiple of \$2,000,000. Notwithstanding the foregoing, U.S. Borrower may not reduce the U.S. Commitments below the then outstanding principal balance of the U.S. Revolving Loan Obligations, Canadian Borrower may not reduce the Canadian Commitments below the then outstanding principal balance of the Canadian Obligations and U.K. Borrower may not reduce the U.K. Commitments below the then outstanding principal balance of the U.K. Obligations. No termination or reduction of the Commitments pursuant to this provision may be reinstated without the prior written approval of Agents and the Lenders.

(c) Reallocations. Any Dual Lender may agree with Borrowers to reallocate its existing U.S. Commitment and Canadian Commitment or U.K. Commitment, as the case may be, so long as the sum of such U.S. Commitment and Canadian Commitment or U.K. Commitment, as the case may be, remains unchanged. In addition, with the prior written consent of all of the Dual Lenders, any U.S. Lender may agree with Borrowers to convert a portion of its U.S. Commitment into a Canadian Commitment or a U.K. Commitment, thereby becoming a Dual Lender, any Canadian Lender may agree with Borrowers to convert a portion of its Canadian Commitment into a U.S. Commitment and any U.K. Lender may agree with Borrowers to convert a portion of its U.K. Commitment into a U.S. Commitment, in each case so long as (i) each Lender continues to be a U.S. Lender with a U.S. Commitment of at least \$1,000,000 and (ii) the sum of such Lender's U.S. Commitment and Canadian Commitment or U.K. Commitment, as the case may be, remains equal to the aggregate amount of such Lender's U.S. Commitment and Canadian Commitment or U.K. Commitment, as the case may be, prior to such reallocation. Borrowers shall give written notice to the Agents of any reallocation pursuant to this provision at least ten (10) Business Days prior to the effective date of any such reallocation. No Lender shall be required to agree to any such reallocation, but may do so at its option, in its sole discretion. The following conditions precedent must be satisfied prior to any such reallocation becoming effective:

(1) no Default or Event of Default shall have occurred and be continuing;

(2) if, as a result of any such reallocation, the aggregate U.S. Revolving Loan Obligations would exceed the aggregate of all of the U.S. Commitments, then the U.S. Borrower shall, on the effective date of such reallocation, repay or prepay U.S. Revolving Loans (or provide Cover for Letter of Credit Liabilities relating to U.S. Letters of Credit) in accordance with this Agreement in an aggregate principal amount such that, after giving effect thereto, the aggregate U.S. Revolving Loan Obligations shall not exceed the aggregate of all of the U.S. Commitments;

(3) if, as a result of any such reallocation, the Total Canadian Exposure would exceed the aggregate of all of the Canadian Commitments, then the Canadian Borrower shall, on the effective date of such reallocation, repay or prepay Canadian Revolving Loans (or provide Cover for Letter of Credit Liabilities relating to Canadian Letters of Credit or for Bankers' Acceptance Liabilities) in accordance with this Agreement in an aggregate principal amount such that, after giving effect thereto, the Total Canadian Exposure shall not exceed the aggregate of all of the Canadian Commitments;

(4) if, as a result of any such reallocation, the U.K. Obligations would exceed the aggregate of all of the U.K. Commitments, then the U.K. Borrower shall, on the effective date of such reallocation, repay or prepay U.K. Revolving Loans (or provide Cover for Letter of Credit Liabilities relating to U.K. Letters of Credit) in accordance with this Agreement in an aggregate principal amount such that, after giving effect thereto, the U.K. Obligations shall not exceed the aggregate of all of the U.K. Commitments;

(5) Borrowers shall have paid any amounts (or shall have provided Cover) due under Sections 2.9(c) or (d) hereof on the date of such reallocation;

(6) the Maximum Canadian Available Amount shall be adjusted to equal the sum of all of the Canadian Commitments after giving effect to such reallocation, the Maximum U.K. Available Amount shall be adjusted to equal the sum of all of the U.K. Commitments after giving effect to such reallocation and the Maximum U.S. Available Amount shall be adjusted to equal the sum of all of the U.S. Commitments after giving effect to such reallocation;

(7) participations by the Lenders in the outstanding Letters of Credit and the Letter of Credit Liabilities and the outstanding Loans of the Lenders shall be adjusted to give effect to such reallocation; provided, however, that in lieu of requiring any prepayment of any Bankers' Acceptances in order to make appropriate adjustments to give effect to such reallocations, Canadian Borrower shall be required to provide additional Cover for any applicable portion of the Bankers' Acceptance Liabilities;

(8) each Lender whose U.S. Commitment, Canadian Commitment or U.K. Commitment shall be the subject of any reallocation shall have received from the Borrowers a fee equal to the greater of \$3,000.00 or 1/16% of the amount of the increase or decrease, as the case be, in its Canadian Commitment or U.K. Commitment, as the case may be.

2.5 Commitment Fees.

(a) U.S. Borrower shall pay to U.S. Agent for the account of each U.S. Lender, Canadian Borrower shall pay to Canadian Agent for the account of each Canadian Lender and U.K. Borrower shall pay to U.K. Agent for the account of each U.K. Lender, commitment fees for the Availability Period at a rate per annum equal to the Commitment Fee Percentage. Such commitment fees shall be computed (on the basis of the actual number of days elapsed in a year composed of 360 days) on each day and shall be based on the excess of (x) the aggregate amount of each Lender's U.S. Commitment, Canadian Commitment or U.K. Commitment, as the case may be, for such day over (y) the sum of (i) the aggregate unpaid principal balance (in Dollars) of such Lender's applicable Note or Notes on such day plus (ii) the aggregate applicable Letter of Credit Liabilities as to such Lender for such day plus, in the case of Canadian Lenders only, (iii) the aggregate Bankers' Acceptance Liabilities outstanding on such day. Accrued commitment fees shall be payable in arrears on the Quarterly Dates prior to the Termination Date and on the Termination Date, with any Canadian Obligations converted to Dollars at the Exchange Rate on each such date for the purposes of each such calculation.

(b) All past due fees payable under this Section shall bear interest at the Past Due Rate.

2.6 Several Obligations. The failure of any Lender to make any Loan to be made by it or to accept and purchase any Bankers' Acceptance required to be so accepted and purchased by it on the date specified therefor shall not relieve any other Lender of its obligation to make its Loan or to accept and purchase its Bankers' Acceptance on such date, but neither any Agent nor any Lender shall be responsible or liable for the failure of any other Lender to make a Loan or to accept and purchase any Bankers' Acceptance or to participate in, or co-issue, any Letter of Credit. Notwithstanding anything contained herein to the contrary, (i) if a U.S. Lender fails to make a U.S. Revolving Loan as and when required hereunder, then upon each subsequent event which would otherwise result in payments of principal being made to the defaulting U.S. Lender, the amount which would have been paid to the defaulting U.S. Lender shall be divided among the non-defaulting U.S. Lenders ratably according to their respective Commitment Percentages until the Obligations of each U.S. Lender (including the defaulting U.S. Lender) are equal to such U.S. Lender's Commitment Percentage of the total U.S. Revolving Loan Obligations, (ii) if a Canadian Lender fails to make a Canadian Revolving Loan or accept and purchase any Bankers' Acceptance as and when required hereunder, then upon each subsequent event which would otherwise result in payments of principal being made to the defaulting Canadian Lender, the amount which would have been paid to the defaulting Canadian Lender shall be divided among the non-defaulting Canadian Lenders ratably according to their respective Commitment Percentages until the Obligations of each Canadian Lender (including the defaulting Canadian Lender) are equal to such Canadian Lender's Commitment Percentage of the total Canadian Obligations and (iii) if a U.K. Lender fails to make a U.K. Revolving Loan as and when required hereunder, then upon each subsequent event which would otherwise result in payments of principal being made to the defaulting U.K. Lender, the amount which would have been paid to the defaulting U.K. Lender shall be divided among the non-defaulting U.K. Lenders ratably according to their respective Commitment Percentages until the Obligations of each U.K. Lender (including the defaulting U.K. Lender) are equal to such U.K. Lender's Commitment Percentage of the total U.K. Obligations.

2.7 Notes. The U.S. Revolving Loans made by each U.S. Lender shall be evidenced by a single U.S. Revolving Note of U.S. Borrower in substantially the form of Exhibit D hereto payable to the order of such U.S. Lender in a principal amount equal to the U.S. Commitment of such U.S. Lender, and otherwise duly completed. The Canadian Revolving Loans made by each Canadian Lender which are denominated in Dollars shall be evidenced by a single Canadian Revolving Note of Canadian Borrower in substantially the form of Exhibit C hereto payable to the order of such Canadian Lender in a principal amount equal to the Canadian Commitment of such Canadian Lender, and otherwise duly completed. The Canadian Prime Loans made by each Canadian Lender shall be evidenced by a single Canadian Dollar Revolving Note of Canadian Borrower in substantially the form of Exhibit H hereto payable to the order of such Canadian Lender in a principal amount equal to two times the Canadian Commitment of such Canadian Lender, and otherwise duly completed. The U.K. Revolving Loans made by each U.K. Lender shall be evidenced by a single U.K. Revolving Note of U.K. Borrower in substantially the form of Exhibit L hereto payable to the order of such U.K. Lender in a principal amount equal to the U.K. Commitment of such U.K. Lender, and otherwise duly completed. The Term Loans made by each Lender shall be evidenced by a single Term Note of U.S. Borrower in substantially the form of Exhibit J hereto payable to the order of such Lender in a principal amount equal to the sum of the

outstanding principal balance of the Term Loans made by such Lender, and otherwise duly completed. The promissory notes described in this Section are each, together with all renewals, extensions, modifications and replacements thereof and substitutions therefor, called a "Note" and collectively called the "Notes". Each Lender is hereby authorized by each Borrower to endorse on the schedule (or a continuation thereof) that may be attached to each Note of such Lender, to the extent applicable, the date, amount, type of and the applicable period of interest for each Loan made by such Lender to the applicable Borrower hereunder, and the amount of each payment or prepayment of principal of such Loan received by such Lender, provided, that any failure by such Lender to make any such endorsement shall not affect the obligations of any Borrower under such Note or hereunder in respect of such Loan.

2.8 Use of Proceeds. The proceeds of the Loans, of the Letters of Credit and of the acceptance and purchase of Bankers' Acceptances shall be used by the Borrowers to refinance existing Borrowed Money Indebtedness of the Borrowers and for acquisitions (including, for any Loans or Letters of Credit other than U.K. Loans or U.K. Letters of Credit, the acquisition and related costs contemplated by the Purchase Agreement) and for other working capital and general corporate purposes. Neither any Agent nor any Lender shall have any responsibility as to the use of any proceeds of the Loans or of the acceptance and purchase of Bankers' Acceptances.

2.9 Currency Fluctuations.

(a) Not later than 1:00 p.m. (Houston, Texas time) on each Calculation Date, the U.S. Agent shall determine the Exchange Rate applicable to Canadian Dollars as of such Calculation Date. For purposes of this Section and Section 3.2(b)(4) hereof, the Exchange Rate so determined shall become effective on the first Business Day immediately following the relevant Calculation Date (a "Reset Date").

(b) Not later than 4:00 p.m. (Houston, Texas time) on each Reset Date, the U.S. Agent shall consult with the Canadian Agent and the Agents shall determine the Total Canadian Exposure, the aggregate U.S. Revolving Loan Obligations and the aggregate U.K. Obligations.

(c) If, on any Reset Date or on the date of any reallocation of the U.S. Commitments, the Canadian Commitments and the U.K. Commitments pursuant to Section 2.4(c) hereof, the sum of the aggregate U.S. Revolving Loan Obligations, the U.K. Obligations and the Total Canadian Exposure exceeds the aggregate of all of the U.S. Commitments, the Canadian Commitments and the U.K. Commitments by five percent (5%) or more, then (i) the Agents shall give notice thereof to the Lenders and Borrowers and (ii) the Borrowers shall within two (2) Business Days thereafter, repay or prepay Loans (or provide Cover for Letter of Credit Liabilities or Bankers' Acceptance Liabilities) in accordance with this Agreement in an aggregate principal amount sufficient to reduce the sum of the aggregate U.S. Revolving Loan Obligations, the U.K. Obligations and the Total Canadian Exposure to the aggregate of all of the U.S. Commitments, the Canadian Commitments and the U.K. Commitments.

(d) If, on any day prior to the Termination Date, the Total Canadian Exposure exceeds the aggregate of all of the Canadian Commitments by five percent (5%) or more, then (i) the Canadian Agent shall give notice thereof to the Canadian Borrower and the Canadian Lenders and

(ii) within two (2) Business Days thereafter, the Canadian Borrower shall repay or prepay Canadian Revolving Loans (or provide Cover for Letter of Credit Liabilities relating to Canadian Letters of Credit or Bankers' Acceptance Liabilities) in accordance with this Agreement in an aggregate principal amount such that, after giving effect thereto, the Total Canadian Exposure shall not exceed the aggregate of all of the Canadian Commitments.

3. Borrowings, Prepayments and Interest Options.

3.1 Borrowings. The applicable Borrower shall give the applicable Agent notice of each borrowing to be made hereunder as provided in Section 4.3 hereof and the applicable Agent shall promptly notify each applicable Lender of such request. Not later than 2:00 p.m. Houston, Texas time (in the case of U.S. Revolving Loans which are same day fundings), 11:00 a.m. Houston, Texas time (in the case of U.S. Revolving Loans which are not same day fundings), 11:00 a.m. Toronto, Ontario time (in the case of Canadian Revolving Loans which are not same day fundings and Bankers' Acceptances), 1:00 p.m. Toronto, Ontario time (in the case of Canadian Revolving Loans which are same day fundings), 11:00 a.m. London, United Kingdom time (in the case of U.K. Revolving Loans which are not same day fundings) or 1:00 p.m. London, United Kingdom time (in the case of U.K. Revolving Loans which are same day fundings) on the date specified for each such borrowing hereunder, each applicable Lender shall make available the amount of the Loan, if any, to be made by it on such date and/or the proceeds of the acceptance and purchase of any Bankers' Acceptances, if any, to be so accepted and purchased by it on such date to the applicable Agent at its Principal Office, in immediately available funds, for the account of the applicable Borrower. Such amounts received by the applicable Agent will be held in an account maintained by the applicable Borrower with the applicable Agent. The amounts so received by the applicable Agent shall, subject to the terms and conditions of this Agreement, be made available to the applicable Borrower by wiring or otherwise transferring, in immediately available funds, such amount to an account designated by the applicable Borrower and approved by the applicable Agent.

3.2 Prepayments.

(a) Optional Prepayments. Except as provided in Section 3.3 hereof, each Borrower shall have the right to prepay, on any Business Day, in whole or in part, without the payment of any premium, penalty or fee, any of the Obligations (other than Obligations relating to Bankers' Acceptances) at any time or from time to time, provided that the applicable Borrower shall give the applicable Agent notice of each such prepayment as provided in Section 4.3 hereof. Each optional prepayment on a Term Loan shall be in an amount equal to an integral multiple of \$3,000,000, and each optional prepayment on a Revolving Loan shall be in an amount equal to or greater than \$500,000 (in respect of Revolving Loans denominated in Dollars) or C\$500,000 (in respect of Revolving Loans denominated in Canadian Dollars). Bankers' Acceptances may not be prepaid. Such optional prepayments of Term Loans shall be applied ratably (based on outstanding principal balances) to all Term Notes and shall be applied to scheduled principal installments in inverse order of their maturities.

(b) Mandatory Prepayments and Cover. Except, in each case, as provided in Section 3.3 hereof,

(1) Insurance Proceeds and Condemnation Awards.

(i) Promptly following the receipt thereof by U.S. Borrower or any of its Subsidiaries (other than a Borrower or a Subsidiary of Canadian Borrower or U.K. Borrower which is a Foreign Subsidiary), U.S. Borrower shall deposit or cause to be deposited with U.S. Agent in an interest bearing account (but without any obligation to maximize such interest) all of the net cash proceeds of any payment or award in excess of \$1,000,000 made to any such Person under any policy of Property insurance with respect to any Property owned by such Person or pursuant to any condemnation award with respect to any such Property; provided such amounts have not theretofore been reasonably expended for the restoration or replacement of the asset in respect of which such payment or award was made. Such amounts shall be collaterally assigned to U.S. Agent as security for the U.S. Obligations in a manner reasonably acceptable to U.S. Agent. Upon delivery to U.S. Agent of written certification by U.S. Borrower that the applicable Obligor has reasonably expended amounts or committed in writing to expend amounts for the restoration or replacement of the asset in respect of which such payment or award was made, specifying the amount expended or committed, so long as no Default or Event of Default shall have occurred and be continuing any such amount deposited with U.S. Agent shall be released by U.S. Agent to U.S. Borrower; provided, however, that, in the event that within 180 days of receipt of such payment or award by U.S. Borrower, to the extent U.S. Borrower shall not have actually spent or certified to U.S. Agent its intention to expend a substantially equivalent amount for the restoration or replacement of the asset in respect of which such payment or award was made or to purchase other assets that may be productively used in the business of the U.S. Borrower or the applicable Subsidiary, U.S. Borrower shall make a prepayment on the Term Loans (using any funds deposited with U.S. Agent pursuant to this Section 3.2(b)(1) or other funds) in the amount of the excess of the amount of such payment or award over the amount of such expenditures and/or commitment on such 180th day. Such prepayment shall be applied to the Term Notes secured by the applicable Collateral and shall be applied to scheduled principal installments in inverse order of their maturities.

(ii) In cases where the amount of the net cash proceeds of any payment or award is equal to or less than \$1,000,000 and no Default or Event of Default has occurred and is continuing, such proceeds may be paid to any Obligor, and if received by U.S. Agent shall be paid by U.S. Agent to U.S. Borrower, for use in paying for replacements or repairs of or substitutes for the damaged, destroyed or taken assets or in a manner otherwise consistent with this Agreement.

(2) Excess Cash Flow. Within fifteen (15) Business Days after the delivery of the Annual Financial Statements pursuant to Section 7.2 hereof with respect to the fiscal year of U.S. Borrower (commencing with the fiscal year ending on December 31, 2001), U.S. Borrower shall make a prepayment on the Term Loans in an amount equal to fifty percent (50%) of Excess Cash Flow for such fiscal year less (ii) optional prepayments made on the Term Loans during such fiscal year. Such prepayment shall be applied ratably to the Term

Notes (based on outstanding principal balances) and shall be applied to scheduled principal installments in inverse order of their maturities. Notwithstanding the foregoing, the obligations to make payments under this Section 3.2(b)(2) shall cease at such time as the Funded Debt to EBITDA Ratio shall have been less than 1.25 to 1.00 for two (2) consecutive fiscal quarters.

(3) U.S. Borrowing Base. U.S. Borrower shall from time to time on demand by U.S. Agent prepay the U.S. Revolving Loans (or provide Cover for Letter of Credit Liabilities relating to U.S. Letters of Credit) in such amounts as shall be necessary so that at all times the aggregate outstanding amount of all U.S. Revolving Loan Obligations shall be less than or equal to the Maximum U.S. Available Amount.

(4) Canadian Borrowing Base. Canadian Borrower shall from time to time on demand by Canadian Agent prepay the Canadian Revolving Loans (or provide Cover for Letter of Credit Liabilities relating to Canadian Letters of Credit) in such amounts as shall be necessary so that at all times the aggregate outstanding amount of all Canadian Obligations shall be less than or equal to the Maximum Canadian Available Amount (provided, however, that for purposes of this clause (4), the Exchange Rate used for conversion of Canadian Dollars into Dollars shall be the Exchange Rate as of the most recently occurring Calculation Date).

(5) U.K. Borrowing Base. U.K. Borrower shall from time to time on demand by U.K. Agent prepay the U.K. Revolving Loans (or provide Cover for Letter of Credit Liabilities relating to U.K. Letters of Credit) in such amounts as shall be necessary so that at all times the aggregate outstanding amount of all U.K. Obligations shall be less than or equal to the Maximum U.K. Available Amount (provided, however, that for purposes of this clause (5), the Exchange Rate used for conversion of Pounds or Euros (as the case may be) into Dollars shall be the Exchange Rate as of the most recently occurring Calculation Date).

(6) Sale of Assets. U.S. Borrower shall make the payments required by Section 8.4(c) hereof.

(c) Term Loan Amortization. The principal of the Term Notes shall be due and payable in quarterly installments, each due on a Quarterly Date, beginning on June 30, 2001, equal to \$1,750,000 (in the aggregate for all Term Notes) and allocated among the Term Loan Lenders pro rata in accordance with the unpaid principal balances of the Term Notes held by the Term Loan Lenders. On the Term Loan Maturity Date, the entire unpaid principal balance of each Term Note and all accrued and unpaid interest on the unpaid principal balance of each Term Note shall be finally due and payable.

(d) Interest Payments. Accrued and unpaid interest on the unpaid principal balance of the Loans shall be due and payable on the Interest Payment Dates.

(e) Payments and Interest on Reimbursement Obligations. Each Borrower will pay to the applicable Agent for the account of each applicable Lender the amount of each Reimbursement Obligation owed by such Borrower. Such payment shall be due on the date on which the applicable Agent notifies the applicable Borrower of the date and amount of the applicable payment by an Issuer of any drawing under a Letter of Credit or on the date of maturity of any Bankers' Acceptance. The amount of any Reimbursement Obligation may, if the applicable conditions precedent specified in Sections 5.1 and 5.2 hereof have been satisfied, be paid with the proceeds of Loans or, in the case of Canadian Obligations, of the acceptance and purchase of Bankers' Acceptances. Subject to Section 11.7 hereof, each Borrower will pay to the applicable Agent for the account of each applicable Lender interest on any Reimbursement Obligation at (i) at the applicable Base Rate (with respect to Reimbursement Obligations denominated in Dollars) or at the Canadian Prime Rate (with respect to Reimbursement Obligations denominated in Canadian Dollars) plus the applicable Margin Percentage from the date such Reimbursement Obligation arises until the date five (5) Business Days thereafter and (ii) at the applicable Past Due Rate thereafter until the same is paid in full.

3.3 Interest Options

(a) Options Available. The outstanding principal balance of the Canadian Dollar Revolving Notes shall bear interest at the Canadian Prime Rate and the outstanding principal balance of the other Notes shall bear interest at the applicable Base Rate; provided, that (1) all past due amounts, both principal and accrued interest, shall bear interest at the Past Due Rate, and (2) subject to the provisions hereof, each Borrower shall have the option of having all or any portion of the principal balances of its Notes (other than the Canadian Dollar Revolving Notes) from time to time outstanding bear interest at a Eurodollar Rate. The records of Agents and each of the Lenders with respect to Interest Options, Interest Periods and the amounts of Loans to which they are applicable shall be binding and conclusive, absent manifest error. Interest on the amount of each advance against the Notes shall be computed on the amount of that advance and from the date it is made. Notwithstanding anything in this Agreement to the contrary, for the full term of the Notes the interest rate produced by the aggregate of all sums paid or agreed to be paid to the holders of the Notes for the use, forbearance or detention of the debt evidenced thereby (including all interest on the Notes at the Stated Rate plus the Additional Interest) shall not exceed the Ceiling Rate.

(b) Designation and Conversion. Each Borrower shall have the right to designate or convert its Interest Options in accordance with the provisions hereof. Provided no Event of Default has occurred and is continuing and subject to the last sentence of Section 3.3(a) and the provisions of Section 3.3(c), each Borrower may elect to have a Eurodollar Rate apply or continue to apply to all or any portion of the principal balance of its Notes (other than the Canadian Dollar Revolving Notes). Each change in Interest Options shall be a conversion of the rate of interest applicable to the specified portion of the Loans, but such conversion shall not change the respective outstanding principal balances of the applicable Notes. The Interest Options shall be designated or converted in the manner provided below:

- (i) The applicable Borrower shall give the applicable Agent telephonic notice, promptly confirmed by a Rate Designation Notice (and the applicable Agent shall promptly inform each applicable Lender thereof). Each such telephonic and written notice

shall specify the amount of the Loan and type (i.e. U.S. Revolving Loan, Canadian Revolving Loan, U.K. Revolving Loan or Term Loan) which is the subject of the designation, if any; the amount of borrowings which are to be converted or for which an Interest Option is designated; the proposed date for the designation or conversion and the Interest Period or Periods, if any, selected by the applicable Borrower. Such telephonic notice shall be irrevocable and shall be given to the applicable Agent no later than the applicable Rate Designation Date.

- (ii) No more than four (4) LIBOR Borrowings shall be in effect with respect to the U.S. Revolving Loans at any time, no more than four (4) LIBOR Borrowings shall be in effect with respect to the Canadian Revolving Loans at any time and no more than four (4) LIBOR Borrowings shall be in effect with respect to the U.K. Revolving Loans at any time. No more than four (4) LIBOR Borrowings shall be in effect with respect to the Term Loans at any time. No single LIBOR Borrowing may include any combination of any two or more of U.S. Revolving Loans, Canadian Revolving Loans, U.K. Revolving Loans and Term Loans.
- (iii) Each designation or conversion of a LIBOR Borrowing shall occur on a Business Day.
- (iv) Except as provided in Section 3.3(c) hereof, no LIBOR Borrowing may be converted to a Base Rate Borrowing or another LIBOR Borrowing on any day other than the last day of the applicable Interest Period.
- (v) Each request for a LIBOR Borrowing shall be in the amount equal to \$500,000 or an integral multiple of \$100,000 in excess thereof.
- (vi) Each designation of an Interest Option with respect to the U.S. Revolving Notes shall apply to all of the U.S. Revolving Notes ratably in accordance with their respective outstanding principal balances. Each designation of an Interest Option with respect to the Canadian Revolving Notes shall apply to all of the Canadian Revolving Notes ratably in accordance with their respective outstanding principal balances. Each designation of an Interest Option with respect to the U.K. Revolving Notes shall apply to all of the U.K. Revolving Notes ratably in accordance with their respective outstanding principal balances. Each designation of an Interest Option with respect to the Term Notes shall apply to all of the Term Notes ratably in accordance with their respective outstanding principal balances. If any Lender assigns an interest in any of its Notes when any LIBOR Borrowing is outstanding with respect thereto, then such assignee shall have its ratable interest in such LIBOR Borrowing.
- (vii) The entire outstanding principal balance of the Canadian Dollar Revolving Notes shall bear interest at the Canadian Prime Rate.

(c) Special Provisions Applicable to LIBOR Borrowings.

(i) Options Unlawful. If the adoption of any applicable Legal Requirement after the Effective Date or any change after the Effective Date in any applicable Legal Requirement or in the interpretation or administration thereof by any Governmental Authority or compliance by any Lender with any request or directive (whether or not having the force of law) issued after the Effective Date by any central bank or other Governmental Authority shall at any time make it unlawful or impossible for any Lender to permit the establishment of or to maintain any LIBOR Borrowing, the commitment of such Lender to establish such LIBOR Borrowing shall forthwith be canceled and the applicable Borrower shall forthwith, shall on the last day of the Interest Period relating to any outstanding LIBOR Borrowing (or within such earlier period as may be required by applicable law) (1) convert the LIBOR Borrowing of such Lender with respect to which such demand was made to a Base Rate Borrowing; (2) pay all accrued and unpaid interest to date on the amount so converted; and (3) pay any amounts required to compensate each Lender for any additional cost or expense which any Lender may incur as a result of such adoption of or change in such Legal Requirement or in the interpretation or administration thereof and any Funding Loss which any Lender may incur as a result of such conversion. If, when any Agent so notifies any Borrower, such Borrower has given a Rate Designation Notice specifying a LIBOR Borrowing but the selected Interest Period has not yet begun, as to the applicable Lender such Rate Designation Notice shall be deemed to be of no force and effect, as if never made, and the balance of the Loans made by such Lender specified in such Rate Designation Notice shall bear interest at the Base Rate until a different available Interest Option shall be designated in accordance herewith.

(ii) Increased Cost of Borrowings. Subject to Section 11.17, if the adoption after the Effective Date of any applicable Legal Requirement or any change after the Effective Date in any applicable Legal Requirement or in the interpretation or administration thereof by any Governmental Authority or compliance by any Lender with any request or directive (whether or not having the force of law) issued after the Effective Date by any central bank or Governmental Authority shall at any time as a result of any portion of the principal balances of the Notes being maintained on the basis of a Eurodollar Rate:

- (1) subject any Lender to any Taxes, or any deduction or withholding for any Taxes, on or from any payment due under any LIBOR Borrowing or other amount due hereunder, other than income and franchise taxes of the United States or its political subdivisions or such other jurisdiction in which the applicable Lender has its principal office or applicable lending office; or
- (2) change the basis of taxation of payments due from any Borrower to any Lender under any LIBOR Borrowing (otherwise than by a change in the rate of taxation of the overall net income of such Lender); or
- (3) impose, modify, increase or deem applicable any reserve requirement (excluding that portion of any reserve requirement included in the calculation of the applicable Eurodollar Rate), special deposit requirement or similar requirement (including, but not limited to, state law requirements) against assets of any Lender, or against deposits with any Lender, or against loans

made by any Lender, or against any other funds, obligations or other Property owned or held by any Lender; or

- (4) impose on any Lender any other condition regarding any LIBOR Borrowing;

and the result of any of the foregoing is to increase the cost to any Lender of agreeing to make or of making, renewing or maintaining such LIBOR Borrowing, or reduce the amount of principal or interest received by any Lender, then, within 15 Business Days after demand by any Agent (accompanied by a statement setting forth in reasonable detail the applicable Lender's basis therefor), the applicable Borrower shall pay to the applicable Agent additional amounts which shall compensate each Lender for such increased cost or reduced amount. The determination by any Lender of the amount of any such increased cost, increased reserve requirement or reduced amount shall be conclusive and binding, absent manifest error. Each Borrower shall have the right, if it receives from any Agent any notice referred to in this paragraph, upon three Business Days' notice to the applicable Agent (which shall notify each affected Lender), either (i) to repay in full (but not in part) any borrowing with respect to which such notice was given, together with any accrued interest thereon, or (ii) to convert the LIBOR Borrowing which is the subject of the notice to a Base Rate Borrowing; provided, that any such repayment or conversion shall be accompanied by payment of (x) the amount required to compensate each Lender for the increased cost or reduced amount referred to in the preceding paragraph; (y) all accrued and unpaid interest to date on the amount so repaid or converted, and (z) any Funding Loss which any Lender may incur as a result of such repayment or conversion. Each Lender will notify the applicable Borrower through the applicable Agent of any event occurring after the date of this Agreement which will entitle such Lender to compensation pursuant to this Section as promptly as practicable after it obtains knowledge thereof and determines to request such compensation, and (if so requested by the applicable Borrower through the applicable Agent) will designate a different lending office of such Lender for the applicable LIBOR Borrowing or will take such other action as the applicable Borrower may reasonable request if such designation or action is consistent with the internal policy of such Lender and legal and regulatory restrictions, will avoid the need for, or reduce the amount of, such compensation and will not, in the sole opinion of such Lender, be disadvantageous to such Lender.

(iii) Inadequacy of Pricing and Rate Determination. If, for any reason with respect to any Interest Period, the applicable Agent (or, in the case of clause 3 below, the applicable Lender) shall have determined (which determination shall be conclusive and binding upon the applicable Borrower, absent manifest error) that:

- (1) such Agent is unable through its customary general practices to determine any applicable Eurodollar Rate, or
- (2) by reason of circumstances affecting the applicable market, generally, such Agent is not being offered deposits in United States dollars in such market, for the applicable Interest Period and in an amount equal to the amount of any applicable LIBOR Borrowing requested by the applicable Borrower, or

- (3) any applicable Eurodollar Rate will not adequately and fairly reflect the cost to any Lender of making and maintaining such LIBOR Borrowing hereunder for any proposed Interest Period,

then the applicable Agent shall give the applicable Borrower notice thereof and thereupon, (A) any Rate Designation Notice previously given by such Borrower designating the applicable LIBOR Borrowing which has not commenced as of the date of such notice from such Agent shall be deemed for all purposes hereof to be of no force and effect, as if never given, and (B) until the applicable Agent shall notify such Borrower that the circumstances giving rise to such notice from such Agent no longer exist, each Rate Designation Notice requesting the applicable Eurodollar Rate shall be deemed a request for a Base Rate Borrowing, and any applicable LIBOR Borrowing then outstanding shall be converted, without any notice to or from the applicable Borrower, upon the termination of the Interest Period then in effect with respect to it, to a Base Rate Borrowing.

(iv) Funding Losses. Each Borrower shall indemnify each applicable Lender against and hold each applicable Lender harmless from any Funding Loss relating to Loans to such Borrower or relating to Bankers' Acceptances requested by such Borrower. Subject to Section 11.17, this indemnity shall survive the payment of the Notes. Within 15 Business Days after demand by any Agent (accompanied by a certificate of the applicable Lender setting forth in reasonable detail the amount and calculation of the amount claimed as to any Funding Losses, which shall be conclusive and binding upon the applicable Borrower, absent manifest error), the applicable Borrower shall pay to such Agent, for the account of such Lender, the amount of such Funding Losses.

(d) Funding Offices; Adjustments Automatic; Calculation Year. Any Lender may, if it so elects, fulfill its obligation as to any LIBOR Borrowing by causing a branch or affiliate of such Lender to make such Loan and may transfer and carry such Loan at, to or for the account of any branch office or affiliate of such Lender; provided, that in such event for the purposes of this Agreement such Loan shall be deemed to have been made by such Lender and the obligation of the applicable Borrower to repay such Loan shall nevertheless be to such Lender and shall be deemed held by it for the account of such branch or affiliate. Without notice to any Borrower or any other Person, each rate required to be calculated or determined under this Agreement shall automatically fluctuate upward and downward in accordance with the provisions of this Agreement. Interest at the Canadian Prime Rate or any applicable Prime Rate shall be computed on the basis of the actual number of days elapsed in a year consisting of 365 or 366 days, as the case may be. All other interest required to be calculated or determined under this Agreement shall be computed on the basis of the actual number of days elapsed in a year consisting of 360 days, unless the Ceiling Rate would thereby be exceeded, in which event, to the extent necessary to avoid exceeding the Ceiling Rate, the applicable interest shall be computed on the basis of the actual number of days elapsed in the applicable calendar year in which accrued.

(e) Funding Sources. Notwithstanding any provision of this Agreement to the contrary, each Lender shall be entitled to fund and maintain its funding of all or any part of the Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder shall be made as if each Lender had actually funded and maintained each LIBOR Borrowing during each Interest Period through the purchase of deposits having a maturity

corresponding to such Interest Period and bearing an interest rate equal to the Eurodollar Rate for such Interest Period.

4. Payments; Pro Rata Treatment; Computations, Etc.

4.1 Payments.

(a) Except to the extent otherwise provided herein, all payments of principal, interest, Reimbursement Obligations and other amounts to be made by any Borrower hereunder, under the Notes and under the other Loan Documents shall be made, without set-off or counterclaim, in (i) with respect to Bankers' Acceptance Liabilities and Canadian Prime Loans, Canadian Dollars and (ii) in all other cases, in Dollars, in immediately available funds, to the applicable Agent at its Principal Office (or in the case of a successor U.S. Agent, at the principal office of such successor U.S. Agent in the United States, in the case of a successor Canadian Agent, at the principal office of such successor Canadian Agent in Canada and in the case of a successor U.K. Agent, at the principal office of such successor U.K. Agent in the United Kingdom), not later than 11:00 a.m. Houston, Texas time (in the case of any payment by the U.S. Borrower), 12:00 noon Toronto, Ontario time (in the case of any payment by the Canadian Borrower) or 11:00 a.m. London, United Kingdom time (in the case of any payment by the U.K. Borrower) on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day).

(b) Each Borrower shall, at the time of making each payment hereunder, under any Note or under any other Loan Document, specify to the applicable Agent the Obligations payable by such Borrower hereunder or thereunder to which such payment is to be applied. Each payment received by any Agent hereunder, under any Note or under any other Loan Document for the account of a Lender shall be paid promptly to such Lender, in immediately available funds. If any Agent fails to send to any Lender the applicable amount by the close of business on the date any such payment is received by such Agent if such payment is received prior to 11:00 a.m. Houston, Texas time (in the case of any payment to a U.S. Lender) or 12:00 noon Toronto, Ontario time (in the case of any payment to a Canadian Lender) or 11:00 a.m. London, United Kingdom time (in the case of any payment to a U.K. Lender) (or on the next succeeding Business Day with respect to payments which are received after such time), such Agent shall pay to the applicable Lender interest on such amount from such date at a rate of interest per annum equal to (i) in respect of Obligations which are denominated in Dollars, the Federal Funds Rate and (ii) in respect of Canadian Obligations which are denominated in Canadian Dollars, the CDOR Rate. Borrowers, Lenders and Agents acknowledge and agree that this provision and each other provision of this Agreement or any of the other Loan Documents relating to the application of amounts in payment of the Obligations shall be subject to the provisions of Section 4.2(d) regarding pro rata application of amounts after an Event of Default shall have occurred and be continuing.

(c) If the due date of any payment hereunder or under any other Loan Document falls on a day which is not a Business Day, the due date for such payments (except as otherwise provided in clause (2) of the definition of "Interest Period") shall be extended to the next succeeding Business Day and interest shall be payable for any principal so extended for the period of such extension.

(d) All payments by any Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for or on account of any present or future income, stamp, or other taxes, fees, duties, withholding or other charges of any nature whatsoever imposed by any taxing authority excluding in the case of each Agent, each Issuer and each Lender taxes imposed on or measured by its net income or franchise taxes imposed by the jurisdiction in which it is organized or through which it acts for purposes of this Agreement (such non-excluded items being hereinafter referred to as "Taxes"). If as a result of any change in law (or the interpretation thereof) after the date that the applicable Agent, the applicable Issuer or the applicable Lender became a party to this Agreement any withholding or deduction from any payment to be made to, or for the account of, such Person by any Borrower hereunder or under any other Loan Document is required in respect of any Taxes pursuant to any applicable law, rule, or regulation, then such Borrower will (i) pay to the relevant authority the full amount required to be so withheld or deducted; (ii) to the extent available, promptly forward to the applicable Agent an official receipt or other documentation reasonably satisfactory to such Agent evidencing such payment to such authority; and (iii) pay to the applicable Agent, for the account of each affected Person, such additional amount or amounts as are necessary to ensure that the net amount actually received by such Person will equal the full amount such Lender would have received had no such withholding or deduction been required. Each such Person shall determine such additional amount or amounts payable to it (which determination shall, in the absence of manifest error, be conclusive and binding on each Borrower). If any Agent, any Issuer or any Lender becomes aware that any such withholding or deduction from any payment to be made by any Borrower hereunder or under any other Loan Document is required, then such Person shall promptly notify the applicable Agent and the applicable Borrower thereof stating the reasons therefor and the additional amount required to be paid under this Section. Each Lender shall execute and deliver to the applicable Agent and the applicable Borrower such forms as it may be required to execute and deliver pursuant to Section 11.13 hereof. To the extent that any such withholding or deduction results from the failure of a Lender to provide a form required by Section 11.13 hereof (unless such failure is due to some prohibition under applicable Legal Requirements), the applicable Borrower shall have no obligation to pay the additional amount required by clause (iii) above. Anything in this Section notwithstanding, if any Lender elects to require payment by any Borrower of any material amount under this Section, the applicable Borrower may, within 60 days after the date of receiving notice thereof and so long as no Default shall have occurred and be continuing, elect to terminate such Lender as a party to this Agreement; provided that, concurrently with such termination the applicable Borrower shall (i) if the Agents and each of the other Lenders shall consent, pay that Lender all principal, interest and fees and other amounts owed to such Lender through such date of termination or (ii) have arranged for another financial institution approved by the Agents (such approval not to be unreasonably withheld or delayed) as of such date, to become a substitute Lender for all purposes under this Agreement in the manner provided in Section 11.6; provided further that, prior to substitution for any Lender, the applicable Borrower shall have given written notice to the Agents of such intention and the Lenders shall have the option, but no obligation, for a period of 60 days after receipt of such notice, to increase their U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be, in order to replace the affected Lender in lieu of such substitution.

4.2 Pro Rata Treatment. Except to the extent otherwise provided herein: (a) each borrowing from the Lenders under Section 2.1 hereof shall be made (w) in the case of Canadian Revolving Loans, ratably from the Canadian Lenders in accordance with their respective Canadian

Commitments, (x) in the case of U.K. Revolving Loans, ratably from the U.K. Lenders in accordance with their respective U.K. Commitments, (y) in the case of U.S. Revolving Loans, ratably from the U.S. Lenders in accordance with their respective U.S. Commitments and (z) in the case of Term Loans, ratably from the Term Loan Lenders in accordance with the amounts set forth opposite their signature lines hereto under the heading "Term Loans"; (b) each payment of commitment fees shall be made for the account of the Lenders, and each termination or reduction of the U.S. Commitments, Canadian Commitments or U.K. Commitments of the Lenders under Section 2.3 hereof shall be applied, pro rata, according to the Lenders' respective U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be; (c) each payment by any Borrower of principal of or interest on the Term Loans, Canadian Revolving Loans, U.K. Revolving Loans, U.S. Revolving Loans or any Bankers' Acceptance, as the case may be, prior to the occurrence of an Event of Default (or after the applicable Event of Default shall have been fully cured or waived) shall be made to the applicable Agent for the account of the applicable Lenders pro rata in accordance with the respective unpaid principal amounts of the Term Loans, Canadian Revolving Loans, U.K. Revolving Loans or U.S. Revolving Loans (as the case may be) held by or Bankers' Acceptances accepted by such Lenders; (d) each payment by any Borrower of principal of or interest on the Term Loans, Canadian Revolving Loans, U.K. Revolving Loans, U.S. Revolving Loans or any Bankers' Acceptance, as the case may be, while an Event of Default shall have occurred and be continuing, shall be made to the applicable Agent for the account of the Lenders pro rata in accordance with the respective unpaid principal amounts of the Obligations held by the Lenders (i.e. such payments shall be shared by all of the Lenders and not restricted to the holders of U.S. Revolving Notes, Canadian Revolving Notes, Canadian Dollar Revolving Notes, U.K. Revolving Notes or Term Notes, or Lenders having accepted Bankers' Acceptances, as the case may be, regardless of any attempted contrary designation by any Borrower), and (e) the applicable Lenders (other than the applicable Issuer) shall purchase from the applicable Issuer participations in each Letter of Credit to the extent of their respective Commitment Percentages.

4.3 Certain Actions, Notices, Etc. Notices to the applicable Agent of any termination or reduction of U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be, and of borrowings and optional prepayments of Loans and requests for issuances of Letters of Credit shall be irrevocable and shall be effective only if received by the applicable Agent not later than 10:00 a.m. Houston, Texas time (in the case of U.S. Revolving Loans which are same day fundings), 11:00 a.m. Houston, Texas time (in the case of U.S. Revolving Loans which are not same day fundings and U.S. Letters of Credit), 12:00 noon Toronto, Ontario time (in the case of Canadian Revolving Loans which are not same day fundings, Bankers' Acceptances and Canadian Letters of Credit), 10:00 a.m. Toronto, Ontario time (in the case of Canadian Revolving Loans which are same day fundings), 11:00 a.m. London, United Kingdom time (in the case of U.K. Revolving Loans which are not same day fundings and U.K. Letters of Credit) or 10:00 a.m. London, United Kingdom time (in the case of U.K. Revolving Loans which are same day fundings) on the number of Business Days prior to the date of the relevant termination, reduction, borrowing and/or prepayment specified below:

	Number of Business Days Prior Notice -----
Section 2.4(c) Reallocations	10
Termination or Reduction of U.S. Commitments, Canadian Commitments or U.K. Commitments	5
U.S. Revolving Loan, Canadian Revolving Loan or U.K. Revolving Loan repayment	same day
Base Rate Borrowings and Canadian Prime Loans	same day
Letter of Credit issuance	2
Prepayments required pursuant to Section 3.2(b)	same day
Optional prepayment of Term Loan	5
Selection of a Eurodollar Rate	3 LIBOR Business Days
Bankers' Acceptances	2

Each such notice of termination or reduction shall specify the amount of the applicable U.S. Commitment, Canadian Commitment or U.K. Commitment to be terminated or reduced. Each such notice of borrowing or prepayment shall specify the amount of the Loans to be borrowed or prepaid and the date of borrowing or prepayment (which shall be a Business Day). The applicable Agent shall promptly notify the affected Lenders of the contents of each such notice.

4.4 Non-Receipt of Funds by Any Agent. Unless the applicable Agent shall have been notified by a Lender or a Borrower (the "Payor") prior to the date on which such Lender is to make payment to such Agent of the proceeds of a Loan (or funding of a drawing under a Letter of Credit or reimbursement with respect to any drawing under a Letter of Credit or funding of a payment under a Bankers' Acceptance or reimbursement with respect to any payment under a Bankers' Acceptance) to be made by it hereunder or the applicable Borrower is to make a payment to such Agent for the account of one or more of the Lenders, as the case may be (such payment being herein called the "Required Payment"), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to such Agent, the applicable Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to),

make the amount thereof available to the intended recipient on such date and, if the Payor has not in fact made the Required Payment to such Agent, the recipient of such payment (or, if such recipient is the beneficiary of a Letter of Credit, the applicable Borrower and, if such Borrower fails to pay the amount thereof to the applicable Agent forthwith upon demand, the applicable Lenders ratably in proportion to their respective Commitment Percentages) shall, on demand, pay to such Agent the amount made available by such Agent, together with interest thereon in respect of the period commencing on the date such amount was so made available by such Agent until the date Agent recovers such amount at a rate per annum for such period equal to (i) in respect of Obligations which are denominated in Dollars, the Federal Funds Rate and (ii) in respect of Canadian Obligations which are denominated in Canadian Dollars, the CDOR Rate.

4.5 Sharing of Payments, Etc. If a Lender shall obtain payment of any principal of or interest on any Loan made by it under this Agreement, on any Reimbursement Obligation or on any other Obligation then due to such Lender hereunder, through the exercise of any right of set-off (including, without limitation, any right of setoff or Lien granted under Section 9.2 hereof), banker's lien, counterclaim or similar right, or otherwise, it shall promptly purchase from the other Lenders participations in the Loans made, or Reimbursement Obligations or other Obligations held, by the other Lenders in such amounts, and make such other adjustments from time to time as shall be equitable to the end that all the Lenders shall share the benefit of such payment (net of any expenses which may be incurred by such Lender in obtaining or preserving such benefit) pro rata in accordance with the unpaid Obligations then due to each of them. To such end all the Lenders shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored. Each Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any Lender so purchasing a participation in the Loans made, or Reimbursement Obligations or other Obligations held, by other Lenders may exercise all rights of set-off, bankers' lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans, Reimbursement Obligations or other Obligations in the amount of such participation. Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of any Borrower.

5. Conditions Precedent.

5.1 Initial Loans, Letters of Credit and Bankers' Acceptances. The obligation of each Lender or each Issuer to make its initial Loans or issue or participate in the initial Letter of Credit hereunder or to accept and purchase its initial Bankers' Acceptance hereunder (whichever shall first occur) is subject to the following conditions precedent, each of which shall have been fulfilled or waived to the satisfaction of the Majority Lenders (or by all of the Lenders to the extent that such waiver requires unanimous consent under Section 11.5 hereof):

(a) Authorization and Status. Agents shall have received (i) copies of the Organizational Documents of each Obligor certified as true and correct by its secretary, assistant secretary or other equivalent officer, (ii) evidence reasonably satisfactory to Agents of all action taken by each Obligor authorizing the execution, delivery and performance of the Loan Documents and all other documents related to this Agreement to which it is a party (including, without limitation, a certificate of the

secretary, assistant secretary or other equivalent officer of each such party which is a corporation setting forth the resolutions of its Board of Directors authorizing the transactions contemplated thereby), and (iii) such certificates as may be appropriate to demonstrate the qualification and good standing of each Obligor in the jurisdiction of its organization and in each other jurisdiction where the failure in which to qualify could reasonably be expected to have a Material Adverse Effect.

(b) Incumbency. Each Obligor shall have delivered to Agents a certificate in respect of the name and signature of each of the officers (i) who is authorized to sign on its behalf the applicable Loan Documents to which it is a party related to any Loan, the issuance of any Letter of Credit or the acceptance of any Bankers' Acceptance and (ii) who will, until replaced by another officer or officers duly authorized for that purpose, act as its representative for the purposes of signing documents and giving notices and other communications in connection with any Loan, the issuance of any Letter of Credit or the acceptance of any Bankers' Acceptance. Each Agent and each Lender may conclusively rely on such certificates until they receive notice in writing from the applicable Obligor to the contrary.

(c) Notes. Agents shall have received the appropriate Notes of Borrowers for each Lender, duly completed and executed.

(d) Loan Documents. Each Obligor shall have duly executed and delivered the Loan Documents to which it is a party (in such number of copies as Agents shall have requested). Each such Loan Document shall be in substantially the form furnished to the Lenders prior to their execution of this Agreement, together with such changes therein as Agents may approve.

(e) Security Matters. All such action as Agents shall have requested to perfect the Liens created pursuant to the Security Documents which are in effect as of the Effective Date shall have been taken, including, without limitation, where applicable, the filing and recording of the Security Documents with the appropriate Governmental Authorities. Agent shall also have received evidence satisfactory to it that the Liens created by the Security Documents constitute first priority Liens, except for the exceptions expressly provided for herein or therein, including, without limitation, delivery of all applicable stock certificates (with stock powers executed in blank), Uniform Commercial Code search reports and other applicable personal property registry reports, satisfactory title evidence in form and substance acceptable to Agent, and executed releases of any prior Liens (except as permitted by Section 8.2).

(f) Fees and Expenses. Borrowers shall have paid to Agents all unpaid fees in the amounts previously agreed upon in writing between any Borrower and any Agent.

(g) Insurance. Borrowers shall have delivered to Agents certificates of insurance satisfactory to Agents evidencing the existence of all insurance required to be maintained by each Obligor by this Agreement and the Security Documents.

(h) Opinions of Counsel. Agents shall have received such opinions of counsel to Obligors as Agents shall reasonably request with respect to Obligors and the Loan Documents.

(i) Consents. Agents shall have received evidence satisfactory to the Majority Lenders that all material consents of each Governmental Authority and of each other Person, if any, reasonably required in connection with (a) the Loans, Letters of Credit and Bankers' Acceptances and (b) the execution, delivery and performance of this Agreement and the other Loan Documents have been satisfactorily obtained.

(j) Key Agreements. Agents shall have received copies of the Key Agreements, in Proper Form, and, where applicable, shall have received evidence satisfactory to Agents that the transactions contemplated therein have been consummated, subject only to the requested funding hereunder. Upon request of Agents or the Majority Lenders, the copies of any designated Key Agreements shall be certified as true, correct and complete by the applicable Borrower.

(k) Certain Outstanding Indebtedness. Agents shall have received evidence satisfactory to Agents that all Liens presently securing the existing Borrowed Money Indebtedness owing to National Westminster Bank Plc by Axsia Group Limited or any of its Subsidiaries shall have been fully released in consideration of receipt by such holder of such Borrowed Money Indebtedness of cash and Letters of Credit, in specified amounts, supporting such Borrowed Money Indebtedness (or that such holder shall have agreed to execute such releases upon receipt by such holder of such cash and Letters of Credit) and that all rights to further advances under such facility shall have been terminated.

(l) Purchase Agreement. Agents shall have received evidence satisfactory to the Majority Lenders that, concurrently with the initial advance made hereunder, the acquisition contemplated by the Purchase Agreement shall be consummated.

(m) Other Documents. Agents shall have received such other documents consistent with the terms of this Agreement and relating to the transactions contemplated hereby as Agents may reasonably request.

5.2 All Loans, Letters of Credit and Bankers' Acceptances. The obligation of each Lender to make any Loan to be made by it hereunder or to issue or participate in any Letter of Credit or to accept and purchase any Bankers' Acceptance is subject to (a) the accuracy, in all material respects, on the date of such Loan or such issuance or such acceptance and purchase of all representations and warranties of each Obligor contained in this Agreement and the other Loan Documents; (b) the applicable Agent shall have received the following, all of which shall be duly executed and in Proper Form: (1) a Request for Extension of Credit as to the Loan, Letter of Credit or Bankers' Acceptance, as the case may be, by the time and on the Business Day specified under Section 4.3 hereof, (2) in the case of a Letter of Credit, an Application, and (3) such other documents as the applicable Agent may reasonably require; (c) prior to the making of such Loan or the issuance of such Letter of Credit or the acceptance and purchase of such Bankers' Acceptance, there shall have occurred no event which could reasonably be expected to have a Material Adverse Effect; (d) no Default or Event of Default shall have occurred and be continuing, and (e) the making of such Loan or the issuance of such Letter of Credit or the acceptance and purchase of such Bankers' Acceptance shall not be illegal or prohibited by any Legal Requirement. The submission by any Borrower of a Request for Extension of Credit shall be deemed to be a representation and warranty

that the conditions precedent to the applicable Loan or Letter of Credit or Bankers' Acceptance have been satisfied.

6. Representations and Warranties.

To induce Agents, the Issuers and the Lenders to enter into this Agreement and to make the Loans and issue or participate in the Letters of Credit and accept and purchase Bankers' Acceptances, U.S. Borrower, Canadian Borrower and U.K. Borrower each represents and warrants (such representations and warranties to survive any investigation and the making of the Loans and the issuance of any Letters of Credit and the acceptance and purchase of any Bankers' Acceptances) to the Lenders, Issuers and Agents as follows:

6.1 Organization. Each Obligor (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (b) has all necessary power and authority to conduct its business as presently conducted, and (c) is duly qualified to do business and in good standing in the jurisdiction of its organization and in all jurisdictions in which the failure to so qualify could reasonably be expected to have a Material Adverse Effect.

6.2 Financial Statements. Borrowers have furnished to Agents (i) audited consolidated financial statements (including a balance sheet) as to U.S. Borrower which fairly present in all material respects, in accordance with GAAP, the consolidated financial condition and the results of operations of U.S. Borrower as at the end of the fiscal years ended December 31, 1998 and December 31, 1999, (ii) audited financial statements (including a balance sheet) as to U.K. Borrower which, to the best knowledge of Borrowers, fairly present in all material respects, in accordance with United Kingdom generally accepted accounting principles, the consolidated financial condition and the results of operations of U.K. Borrower as at the end of the fiscal year ended December 31, 1999, (iii) unaudited consolidating financial statements (including a balance sheet) as to U.S. Borrower and its Subsidiaries which fairly present in all material respects, in accordance with GAAP, the consolidating financial condition and the results of operations of U.S. Borrower and its Subsidiaries, on a consolidating basis, as at the end of the fiscal years ended December 31, 1998 and December 31, 1999, (iv) unaudited consolidated and consolidating financial statements (including a balance sheet) as to U.S. Borrower and its Subsidiaries which fairly present in all material respects, in accordance with GAAP, the consolidated and consolidating financial condition and the results of operations of U.S. Borrower and its Subsidiaries as at the end of the fiscal quarters ended March 31, 2000, June 30, 2000, September 30, 2000 and December 31, 2000 and (v) unaudited financial statements (including a balance sheet) as to U.K. Borrower which, to the best knowledge of Borrowers, fairly present in all material respects, in accordance with United Kingdom generally accepted accounting principles, the consolidated financial condition and the results of operations of U.K. Borrower as at the end of the fiscal year ended December 31, 2000. No events, conditions or circumstances have occurred from the date that the financial statements were delivered to Agent through the Effective Date which would cause said financial statements to be misleading in any material respect. Except for the Purchase Agreement, this Agreement and the other Loan Documents, there are no material instruments or liabilities which should be reflected in such financial statements provided to Agent which are not so reflected.

6.3 Enforceable Obligations; Authorization. The Loan Documents to which the applicable Obligor are parties are legal, valid and binding obligations of each applicable Obligor, enforceable in accordance with their respective terms, except as may be limited by bankruptcy, insolvency and other similar laws and judicial decisions affecting creditors' rights generally and by general equitable principles. The execution, delivery and performance of the Loan Documents by the respective Obligor (a) have all been duly authorized by all necessary action; (b) are within the power and authority of each applicable Obligor; (c) do not and will not contravene or violate any Legal Requirement applicable to any applicable Obligor or the Organizational Documents of any applicable Obligor, the contravention or violation of which could reasonably be expected to have a Material Adverse Effect; (d) do not and will not result in the breach of, or constitute a default under, any material agreement or instrument by which any Obligor or any of its Property may be bound, and (e) do not and will not result in the creation of any Lien upon any Property of any Obligor, except in favor of Agents as expressly contemplated herein or therein. All necessary permits, registrations and consents for such making and performance have been obtained. Except as otherwise expressly stated in the Security Documents, the Liens of the Loan Documents will constitute valid and perfected first and prior Liens on the Property described therein, subject to no other Liens whatsoever except Permitted Liens.

6.4 Other Debt. No Obligor is in default in the payment of any other Borrowed Money Indebtedness or under any agreement, mortgage, deed of trust, security agreement or lease to which it is a party and which default could reasonably be expected to have a Material Adverse Effect.

6.5 Litigation. There is no litigation or administrative proceeding, to the knowledge of any executive officer of any Borrower, pending or threatened against, nor any outstanding judgment, order or decree against, any Obligor before or by any Governmental Authority which does or could reasonably be expected to have a Material Adverse Effect. No Obligor is in default with respect to any judgment, order or decree of any Governmental Authority where such default could reasonably be expected to have a Material Adverse Effect.

6.6 Title. Each Obligor has good and defensible title to the Collateral, if any, pledged (or purported to be pledged) by such Obligor pursuant to the Security Documents, free and clear of all Liens (except Permitted Liens).

6.7 Taxes. Each Obligor has filed all tax returns required to have been filed and paid all taxes shown thereon to be due, except those for which extensions have been obtained and those which are being contested in good faith or where the failure to make required filings or pay required taxes could not reasonably be expected to have a Material Adverse Effect.

6.8 Regulations U and X. None of the proceeds of any Loan or proceeds from the acceptance and purchase of Bankers' Acceptances will be used for the purpose of purchasing or carrying directly or indirectly any margin stock or for any other purpose that would constitute this transaction a "purpose credit" within the meaning of Regulations U and X of the Board of Governors of the Federal Reserve System, as any of them may be amended from time to time.

6.9 Subsidiaries. As of the Effective Date, U.S. Borrower has no Subsidiaries other than as set forth on Exhibit K hereto. The percentage of the issued and outstanding Equity Interests in

each applicable Subsidiary which is owned by U.S. Borrower or one or more of its Subsidiaries is set forth on Exhibit K hereto.

6.10 No Untrue or Misleading Statements. No document, instrument or other writing furnished to the Lenders by or on behalf of any Obligor in connection with the transactions contemplated in any Loan Document contains any untrue material statement of fact or omits to state any such fact necessary to make the representations, warranties and other statements contained herein or in such other document, instrument or writing not misleading in any material respect.

6.11 ERISA. With respect to each Plan, each Borrower and each member of the Controlled Group have fulfilled their obligations, including obligations under the minimum funding standards of ERISA and the Code and are in compliance in all material respects with the provisions of ERISA and the Code. No event has occurred which could result in a liability of any Borrower or any member of the Controlled Group to the PBGC or a Plan (other than to make contributions in the ordinary course) that could reasonably be expected to have a Material Adverse Effect. There have not been any nor are there now existing any events or conditions that would cause the Lien provided under Section 4068 of ERISA to attach to any Property of any Borrower or any member of the Controlled Group. The aggregate Unfunded Liabilities in respect of all Plans as of the date hereof do not exceed \$1,000,000. No "prohibited transaction" has occurred with respect to any Plan.

6.12 Investment Company Act. No Obligor is an investment company within the meaning of the Investment Company Act of 1940, as amended, or, directly or indirectly, controlled by or acting on behalf of any Person which is an investment company, within the meaning of said Act.

6.13 Public Utility Holding Company Act. No Obligor is an "affiliate" or a "subsidiary company" of a "public utility company," or a "holding company," or an "affiliate" or a "subsidiary company" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

6.14 Solvency. None of U.S. Borrower, Canadian Borrower, U.K. Borrower, any other Obligor, U.S. Borrower and its Subsidiaries, on a consolidated basis, Canadian Borrower and its Subsidiaries, on a consolidated basis, or U.K. Borrower and its Subsidiaries, on a consolidated basis, is "insolvent," as such term is used and defined in (i) the Bankruptcy Code and (ii) the fraudulent conveyance statutes of the State of Texas or of any jurisdiction in which any of the Collateral may be located or unable to pay its debts within the meaning of Section 123 of the Insolvency Act 1986 (England and Wales).

6.15 Fiscal Year. The fiscal year of each Obligor ends on December 31.

6.16 Compliance. Each Obligor is in compliance with all Legal Requirements applicable to it, except to the extent that the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.17 Environmental Matters. Each Obligor has, to the best knowledge of their respective executive officers, obtained and maintained in effect all Environmental Permits (or the applicable Person has initiated the necessary steps to transfer the Environmental Permits into its name or obtain

such permits), the failure to obtain which could reasonably be expected to have a Material Adverse Effect. Each Obligor and its Properties, business and operations have been and are, to the best knowledge of their respective executive officers, in compliance with all applicable Requirements of Environmental Law and Environmental Permits the failure to comply with which could reasonably be expected to have a Material Adverse Effect. Each Obligor and its Properties, business and operations are not subject to any (A) Environmental Claims or (B), to the best knowledge of their respective executive officers (after making reasonable inquiry of the personnel and records of their respective Corporations), Environmental Liabilities, in either case direct or contingent, arising from or based upon any act, omission, event, condition or circumstance occurring or existing on or prior to the date hereof which could reasonably be expected to have a Material Adverse Effect. None of the officers of any Obligor has received any notice of any violation or alleged violation of any Requirements of Environmental Law or Environmental Permit or any Environmental Claim in connection with its Properties, liabilities, condition (financial or otherwise), business or operations which could reasonably be expected to have a Material Adverse Effect. None of U.S. Borrower, Canadian Borrower or U.K. Borrower knows of any event or condition with respect to currently enacted Requirements of Environmental Laws presently scheduled to become effective in the future with respect to any of the Properties of any Obligor which could reasonably be expected to have a Material Adverse Effect, for which the applicable Obligor has not made good faith provisions in its business plan and projections of financial performance.

6.18 Collateral Covered. As of the Effective Date, the Collateral covered by the Security Documents constitutes substantially all material personal Property owned by U.S. Borrower and its Subsidiaries (other than Excluded Subsidiaries and Foreign Subsidiaries which are not Subsidiaries of Canadian Borrower or U.K. Borrower) and all of the issued and outstanding Equity Interests in all of the Subsidiaries of U.S. Borrower (other than Excluded Subsidiaries and Foreign Subsidiaries which are not Subsidiaries of Canadian Borrower or U.K. Borrower) owned by U.S. Borrower or any of its Subsidiaries (with the Collateral being allocated among Canadian Obligations, U.K. Obligations and U.S. Obligations as herein provided).

6.19 Property of Excluded Subsidiaries and Certain Foreign Subsidiaries. The aggregate value (based on the greater of book or market value) of the Property owned by Excluded Subsidiaries or by Foreign Subsidiaries of U.S. Borrower (other than Canadian Borrower, U.K. Borrower or their Subsidiaries) as of the Effective Date is no greater than \$5,000,000.

7. Affirmative Covenants.

U.S. Borrower, Canadian Borrower and U.K. Borrower each covenants and agrees with Agents and the Lenders that prior to the payment of all Obligations and the termination of all U.S. Commitments, Canadian Commitments and U.K. Commitments it will do or cause to be done, and cause each other Obligor (unless limited by the language of the applicable provision to less than all of the Obligors) to do or cause to be done, each and all of the following:

7.1 Taxes, Existence, Regulations, Property, Etc. At all times, except where failure or noncompliance could not reasonably be expected to have a Material Adverse Effect: (a) pay when due all taxes and governmental charges of every kind upon it or against its income, profits or Property, unless and only to the extent that the same shall be contested diligently in good faith and

adequate reserves in accordance with GAAP have been established therefor; (b) do all things necessary to preserve its existence, qualifications, rights and franchises; (c) comply with all applicable Legal Requirements (including without limitation Requirements of Environmental Law) in respect of the conduct of its business and the ownership of its Property; and (d) cause its Property to be protected, maintained and kept in good repair and make all replacements and additions to such Property as may be reasonably necessary to conduct its business properly and efficiently.

7.2 Financial Statements and Information. Furnish to Agents and each Lender each of the following: (a) as soon as available and in any event within 120 days after the end of each applicable fiscal year, beginning with the fiscal year ending on December 31, 2000, Annual Financial Statements of U.S. Borrower and, for the fiscal year ended December 31, 2000 only, Annual Financial Statements for U.K. Borrower; (b) as soon as available and in any event within 45 days after the end of each fiscal quarter of each applicable fiscal year, Quarterly Financial Statements of U.S. Borrower; (c) concurrently with the financial statements provided for in Subsections 7.2(a) and (b) hereof, such schedules, computations and other information, in reasonable detail, as may be reasonably required by Agents to demonstrate compliance with the covenants set forth herein or reflecting any non-compliance therewith as of the applicable date, all certified and signed by a duly authorized officer of U.S. Borrower as true and correct in all material respects to the best knowledge of such officer and, commencing with the quarterly financial statement prepared as of March 31, 2001, a compliance certificate ("Compliance Certificate") substantially in the form of Exhibit F hereto, duly executed by such authorized officer; (d) by March 31 of each fiscal year, U.S. Borrower's annual business plan for the then current fiscal year (including their proforma balance sheets and income and cash flow projections for such fiscal year); (e) promptly upon their becoming publicly available, each financial statement, report, notice or definitive proxy statements sent by any Obligor to shareholders generally and each regular or periodic report and each registration statement, prospectus or written communication (other than transmittal letters) in respect thereof filed by any Obligor with, or received by any Obligor in connection therewith from, any securities exchange or the Securities and Exchange Commission or any successor agency; (f) (1) as of the Effective Date and (2) within 30 days after the end of each calendar month, a Borrowing Base Certificate as at the Effective Date or the last day of such calendar month, together with such supporting information as any Agent may reasonably request; (g) within 30 days after (i) the end of each calendar quarter or (ii) receipt of a request therefor (which may be given from time to time) from any Agent, (1) a listing and aging of the Accounts of (x) U.S. Borrower and its Subsidiaries (other than Foreign Subsidiaries or Excluded Subsidiaries), (y) the Subsidiaries of Canadian Borrower and (z) the Subsidiaries of U.K. Borrower which are Foreign Subsidiaries (other than Excluded Subsidiaries) as of the end of the most recently ended calendar month, prepared in reasonable detail and containing such other information as any Agent may reasonably request (including information supporting the progress payments included in the Eligible Accounts) and (2) a summary of the Inventory of (x) U.S. Borrower and its Subsidiaries (other than Foreign Subsidiaries or Excluded Subsidiaries) and (y) the Subsidiaries of Canadian Borrower as of the end of the most recently ended calendar month, prepared in reasonable detail and containing such other information as any Agent may reasonably request; (h) from time to time, at any time upon the request of any Agent, but at the cost of the applicable Borrower, a report of an independent collateral field examiner approved by Agents in writing and reasonably acceptable to the applicable Borrower (which may be, or be affiliated with, any Agent or one of the Lenders) with respect to the Accounts and Inventory components included in the U.S. Borrowing Base, the Canadian Borrowing Base and the U.K. Borrowing Base (provided,

however, that so long as no Event of Default has occurred and is continuing, Agents shall not require such a report more than once per calendar year and during the continuance of an Event of Default, Agents shall not require such a report more than once per calendar quarter), and (i) such other information relating to the condition (financial or otherwise), operations, prospects or business of any Obligor as from time to time may be reasonably requested by any Agent. Each delivery of a financial statement pursuant to this Section 7.2 shall constitute a restatement of the representations contained in the last two sentences of Section 6.2.

7.3 Financial Tests. Have and maintain:

(a) Net Worth - Net Worth of not less than (1) at all times during the period commencing on the Effective Date through and including March 31, 2001, an amount equal to \$73,252,150 and (2) at all times during each fiscal quarter thereafter, the minimum Net Worth required as of the end of the immediately preceding fiscal quarter plus 50% of the net income of U.S. Borrower and its Subsidiaries, on a consolidated basis (if positive), for the period from December 31, 2000 through the last day of the fiscal quarter ending immediately prior to the date of such calculation plus 100% of the net proceeds realized from the issuance of any equity securities by U.S. Borrower during that period.

(b) Funded Debt to EBITDA Ratio - a Funded Debt to EBITDA Ratio of not greater than 3.00 to 1.00 at all times during the period commencing on the Effective Date through and including March 31, 2002; (2) 2.75 to 1.00 at all times during the period commencing on April 1, 2002 through and including March 31, 2003, and (3) 2.50 to 1.00 at all times thereafter.

(c) Fixed Charge Coverage Ratio - a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00 at all times.

(d) Asset Coverage Ratio - an Asset Coverage Ratio of not less than 1.75 to 1.00 at all times during the period commencing on the Effective Date through and including December 31, 2001 and (2) 2.00 to 1.00 at all times thereafter.

7.4 Inspection. Permit each Agent and each Lender upon 3 Business Days' prior notice (unless a Default or an Event of Default has occurred which is continuing, in which case no prior notice is required) to inspect its Property in a manner consistent with applicable safety requirements and policies of insurance, to examine its files, books and records, except classified governmental material, legally privileged material and material subject to a confidentiality obligation, and make and take away copies thereof, and to discuss its affairs with its officers and accountants, all during normal business hours and at such intervals and to such extent as any Agent may reasonably desire.

7.5 Further Assurances. Promptly execute and deliver, at the expense of U.S. Borrower, Canadian Borrower or U.K. Borrower, as the case may be, any and all other and further instruments which may be reasonably requested by any Agent to cure any defect in the execution and delivery of any Loan Document in order to effectuate the transactions contemplated by the Loan Documents, and in order to grant, preserve, protect and perfect the validity and priority of the Liens created by the Security Documents.

7.6 Books and Records. Maintain books of record and account which permit financial statements to be prepared in accordance with GAAP.

7.7 Insurance. Maintain insurance on its Property with responsible companies in such amounts, with such deductibles and against such risks as are usually carried by owners of similar businesses and Properties in the same general areas in which the applicable Obligor operates or as any Agent may otherwise reasonably require, and furnish each Agent satisfactory evidence thereof promptly upon request. These insurance provisions are cumulative of the insurance provisions of the Security Documents. Each Agent shall be provided with a certificate showing coverages provided under the policies of insurance and such policies shall be endorsed to the effect that they will not be canceled for nonpayment of premium, reduced or affected in any material manner without thirty (30) days' prior written notice to Agents.

7.8 Notice of Certain Matters. Give Agents written notice of the following promptly after any executive officer of U.S. Borrower, Canadian Borrower or U.K. Borrower shall become aware of the same:

(a) the issuance by any court or governmental agency or authority of any injunction, order or other restraint prohibiting, or having the effect of prohibiting, the performance of this Agreement, any other Loan Document, or the making of the Loans or the acceptance and purchase of Bankers' Acceptances or the initiation of any litigation, or any claim or controversy which would reasonably be expected to result in the initiation of any litigation, seeking any such injunction, order or other restraint;

(b) the filing or commencement of any action, suit or proceeding, whether at law or in equity or by or before any court or any Governmental Authority involving claims in excess of \$1,000,000 or which could reasonably be expected to result in a Default hereunder; and

(c) any Event of Default or Default, specifying the nature and extent thereof and the action (if any) which is proposed to be taken with the respect thereto.

Borrowers will also notify Agents in writing at least 30 days prior to the date that any Obligor changes its name or the location of its chief executive office or principal place of business or the place where it keeps its books and records. After the Effective Date, Borrowers will notify Agents in writing at least 45 days prior to any Borrower's or any of their Subsidiaries' (other than Excluded Subsidiaries and other than Foreign Subsidiaries which are not Subsidiaries of Canadian Borrower or U.K. Borrower) acquisition of any real Property or any material personal Property having aggregate fair market value in excess of \$2,500,000, wherever located, other than the Collateral covered by the Security Documents (such acquisition or ownership being herein called an "Additional Collateral Event" and the Property so acquired or owned being herein called "Additional Collateral").

7.9 Capital Adequacy. If any Lender shall have determined that the adoption after the Effective Date or effectiveness after the Effective Date (whether or not previously announced) of any applicable law, rule, regulation or treaty regarding capital adequacy, or any change therein after the Effective Date, or any change in the interpretation or administration thereof after the Effective Date

by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender with any request or directive after the Effective Date regarding capital adequacy (whether or not having the force of law) of any such Governmental Authority, central bank or comparable agency has or would have the effect of reducing the rate of return on such Lender's capital as a consequence of its obligations hereunder, under the Letters of Credit, the Notes or other Obligations held by it to a level below that which such Lender could have achieved but for such adoption, change or compliance (taking into consideration such Lender's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, upon satisfaction of the conditions precedent set forth in this Section, after demand by such Lender (with a copy to the appropriate Agent) as provided below, pay (subject to Sections 11.7 and 11.17 hereof) to such Lender such additional amount or amounts as will compensate such Lender for such reduction. The certificate of any Lender setting forth such amount or amounts as shall be necessary to compensate it and the basis thereof and reasons therefor shall be delivered as soon as practicable to U.S. Borrower, Canadian Borrower or U.K. Borrower, as the case may be, and shall be conclusive and binding, absent manifest error. U.S. Borrower, Canadian Borrower or U.K. Borrower, as the case may be, shall pay the amount shown as due on any such certificate within fifteen (15) Business Days after the delivery of such certificate. In preparing such certificate, a Lender may employ such assumptions and allocations of costs and expenses as it shall in good faith deem reasonable and may use any reasonable averaging and attribution method.

7.10 ERISA Information and Compliance. Promptly furnish to Agents: (i) immediately upon receipt, a copy of any notice of complete or partial withdrawal liability under Title IV of ERISA and any notice from the PBGC under Title IV of ERISA of an intent to terminate or appoint a trustee to administer any Plan, (ii) if requested by any Agent, promptly after the filing thereof with the United States Secretary of Labor or the PBGC or the Internal Revenue Service or any Governmental Authority having jurisdiction under Applicable Canadian Pension Legislation, copies of each annual and other report or other information return with respect to each Plan or any trust created thereunder, (iii) immediately upon becoming aware of the occurrence of any "reportable event," as such term is defined in Section 4043 of ERISA, for which the disclosure requirements of Regulation Section 2615.3 promulgated by the PBGC have not been waived, or of any "prohibited transaction," as such term is defined in Section 4975 of the Code, in connection with any Plan or any trust created thereunder, a written notice signed by an authorized officer of the applicable Borrower or the applicable member of the Controlled Group specifying the nature thereof, what action the applicable Borrower or the applicable member of the Controlled Group is taking or proposes to take with respect thereto, and, when known, any action taken by the PBGC, the Internal Revenue Service, the Department of Labor or any other applicable Governmental Authority with respect thereto, (iv) promptly after the filing or receiving thereof by any Borrower or any member of the Controlled Group of any notice of the institution of any proceedings or other actions which may result in the termination of any Plan, in whole or in part, and (v) each request for waiver of the funding standards or extension of the amortization periods required by Sections 303 and 304 of ERISA or Section 412 of the Code promptly after the request is submitted by any Borrower or any member of the Controlled Group to the Secretary of the Treasury, the Department of Labor, the Internal Revenue Service or any other applicable Governmental Authority. To the extent required under applicable statutory funding requirements, each Borrower will fund, or will cause the applicable member of the Controlled Group to fund, all current service pension liabilities as they are incurred under the provisions of all Plans from time to time in effect and, in addition, with respect to Plans governed

by Applicable Canadian Pension Legislation, all special payments in connection with solvency deficiencies or going concern Unfunded Liabilities, and comply with all applicable provisions of ERISA, in each case, except to the extent that failure to do the same could not reasonably be expected to have a Material Adverse Effect. Each Borrower covenants that it shall and shall cause each member of the Controlled Group to (1) make contributions to each Plan in a timely manner and in an amount sufficient to comply with the contribution obligations under such Plan and the minimum funding standards requirements of ERISA; (2) prepare and file in a timely manner all notices and reports required under the terms of ERISA including but not limited to annual reports; and (3) pay in a timely manner all required PBGC premiums, in each case, except to the extent that failure to do the same could not reasonably be expected to have a Material Adverse Effect.

7.11 Additional Security Documents. As soon as practicable and in any event within 30 days after an Additional Collateral Event, Borrowers shall (a) execute and deliver or cause to be executed and delivered Security Documents, in Proper Form, in favor of the applicable Agent and duly executed by the applicable Obligor, granting a first-priority Lien (except for Permitted Liens and except for Liens securing the EXIM Facility covering the "International Collateral", as such term is defined in the Security Agreements) upon the applicable Additional Collateral securing all of the Canadian Obligations (in the case of Canadian Borrower or any of its Subsidiaries), the U.K. Obligations (in the case of U.K. Borrower or any of its Subsidiaries which are Foreign Subsidiaries but which are not Excluded Subsidiaries) or the U.S. Obligations (in the case of U.S. Borrower or any of its Subsidiaries which are not Foreign Subsidiaries or Excluded Subsidiaries), except as Agents may otherwise agree in order to limit recording taxes or similar charges based upon the amount secured, and such other documents (including, without limitation, all items reasonably required by Agents in connection with the applicable Security Documents previously executed hereunder, all in Proper Form) as may be reasonably required by Agents in connection with the execution and delivery of such Security Documents; (b) deliver or cause to be delivered such other documents or certificates consistent with the terms of this Agreement and relating to the transactions contemplated hereby as Agents may reasonably request, and (c) pay in full all documentary stamps, filing and recording fees, taxes and other fees and charges payable in connection with the filing and recording of any such Security Document.

8. Negative Covenants.

U.S. Borrower, Canadian Borrower and U.K. Borrower each covenants and agrees with Agents and the Lenders that prior to the payment of all Obligations and the termination of all U.S. Commitments, Canadian Commitments and U.K. Commitments it will not, and will not suffer or permit any of its Subsidiaries to, do any of the following:

8.1 Borrowed Money Indebtedness. Create, incur, suffer or permit to exist, or assume or guarantee, directly or indirectly, or become or remain liable with respect to any Borrowed Money Indebtedness, whether direct, indirect, absolute, contingent or otherwise, except the following: (a) Borrowed Money Indebtedness under this Agreement and the other Loan Documents and Borrowed Money Indebtedness secured by Liens permitted by Section 8.2 hereof; (b) the liabilities existing on the date of this Agreement and disclosed in the financial statements delivered on or prior to the Effective Date pursuant to Section 6.2 hereof, and subject to Section 8.10 hereof, all renewals,

extensions and replacements (but not increases) of any of the foregoing; (c) the Interest Rate Risk Indebtedness; (d) purchase money indebtedness to acquire Equipment obtained by U.S. Borrower or any of its Subsidiaries in the ordinary course of business not exceeding \$3,000,000 at any one time outstanding, in the aggregate for all such indebtedness; (e) Borrowed Money Indebtedness of National Tank Company and its Subsidiaries under the EXIM Facility; (f) Borrowed Money Indebtedness created under leases which, in accordance with GAAP have been recorded or should be recorded as capital leases, in an aggregate amount not to exceed \$2,000,000 at any one time outstanding; (g) pre-existing Borrowed Money Indebtedness, not to exceed \$2,000,000 in the aggregate at any one time outstanding, secured by Liens upon assets which are acquired after the date hereof or owing by Persons which become Subsidiaries of U.S. Borrower by acquisition after the date hereof (provided, however, that no such Borrowed Money Indebtedness was incurred at the instigation of U.S. Borrower in contemplation of such acquisition), and (h) without limitation of any other part of this Section, Borrowed Money Indebtedness of U.S. Borrower or any of its Subsidiaries created, incurred or assumed after the Effective Date, in an aggregate amount not to exceed \$10,000,000 at any one time outstanding.

8.2 Liens. Create or suffer to exist any Lien upon any of its Property now owned or hereafter acquired, or acquire any Property upon any conditional sale or other title retention device or arrangement or any purchase money security agreement; or in any manner directly or indirectly sell, assign, pledge or otherwise transfer any of its Accounts or General Intangibles; except: (a) Liens created pursuant to any Loan Document; (b) Permitted Liens; (c) Liens upon "International Collateral" (as defined in the EXIM Facility) securing the EXIM Facility, (d) other Liens securing the EXIM Facility which are subordinate and inferior to the Liens created pursuant to the Loan Documents, and (e) pre-existing Liens securing pre-existing Borrowed Money Indebtedness permitted under Section 8.1(g) hereof covering the applicable acquired asset or covering Property of the applicable acquired Subsidiary of U.S. Borrower (provided, however, that no such Liens were created and no such Borrowed Money Indebtedness was incurred at the instigation of U.S. Borrower in contemplation of such acquisition).

8.3 Contingent Liabilities. Directly or indirectly guarantee the performance or payment of, or purchase or agree to purchase, or assume or contingently agree to become or be secondarily liable in respect of, any obligation or liability of any other Person except for (a) the endorsement of checks or other negotiable instruments in the ordinary course of business; (b) obligations disclosed to Agents in the financial statements delivered on or prior to the Effective Date pursuant to Section 6.2 hereof (and all renewals, extensions and replacements--but not increases--of such obligations after the Effective Date); (c) those liabilities permitted under Sections 8.1 or 8.2 hereof; (d) accounts payable incurred in the ordinary course of business; (e) performance and warranty guaranties of any Borrower or any of their Subsidiaries entered into in the ordinary course of business, and (f) other contingent liabilities not exceeding \$2,000,000 at any one time outstanding.

8.4 Mergers, Consolidations and Dispositions of Assets. In any single transaction or series of transactions, directly or indirectly:

- (a) liquidate or dissolve; provided that any Subsidiary of U.S. Borrower may liquidate, dissolve or take action to wind-up its operations if (i) U.S. Borrower determines such action to be in the best interests of U.S. Borrower and its Subsidiaries, (ii) liquidating

dividends are paid to U.S. Borrower or to a wholly-owned Subsidiary of U.S. Borrower, and (iii) U.S. Borrower gives Agents written notice of such action at least thirty (30) days prior to taking such action;

- (b) be a party to any merger or consolidation unless and so long as (i) no Default or Event of Default has occurred that is then continuing, (ii) immediately thereafter and giving effect thereto, no event will occur and be continuing which constitutes a Default, (iii) if an Obligor is a party to such transaction, an Obligor is the surviving Person; (iv) the surviving Person ratifies and assumes each Loan Document to which any party to such merger was a party, and (v) Agents are given at least 30 days' prior written notice of such merger or consolidation;
- (c) sell, convey or lease all or any part of its assets, except for (i) sales of Inventory in the ordinary course of business, (ii) sales of other Property in the ordinary course of business, (iii) sales or other dispositions of Property not constituting Inventory or other Collateral in the ordinary course of business; (iv) sales or other dispositions of Property not constituting Collateral outside the ordinary course of business; provided the fair market value of all such Property does not exceed \$2,000,000 during any fiscal year; (v) sales or other dispositions of Property (whether or not Collateral) expressly permitted by the other terms of this Agreement or any Loan Document, and (vi) subject to the Borrowers' compliance with Section 3.2(b), dispositions occurring as the result of a casualty event or condemnation; provided, however, that, unless the Majority Lenders shall have otherwise consented in writing, the net proceeds realized from such sales or dispositions permitted under subclauses (iii), (iv) and (v) of this clause (c) must, within ninety (90) days after the applicable sale or disposition, either (I) be used to make a prepayment on the Term Loans pro rata based on their outstanding principal balances (with such payments to be credited to installments in inverse order of their maturity) or (II) be reinvested in assets that may be productively used in the business of U.S. Borrower or the applicable Subsidiary of U.S. Borrower, or
- (d) except for Liens in favor of Agents, pledge, transfer or otherwise dispose of any Equity Interest in any of U.S. Borrower's Subsidiaries or any Borrowed Money Indebtedness of any of U.S. Borrower's Subsidiaries or issue or permit any Subsidiary of U.S. Borrower to issue any additional Equity Interest other than stock dividends subject to a Lien in favor of Agents.

8.5 Redemption, Dividends and Distributions. At any time: (a) redeem, retire or otherwise acquire, directly or indirectly, any Equity Interest other than Equity Interests in wholly-owned Subsidiaries or (b) make any distributions of any Property or cash to the owner of any of the Equity Interests in any Obligor other than Permitted Dividends and Permitted Investments.

8.6 Nature of Business. Change the nature of its business or enter into any business which is substantially different from the business in which it is presently engaged.

8.7 Transactions with Related Parties. Enter into any transaction or agreement with any officer, director or holder of any Equity Interest in any Obligor (or any Affiliate of any such Person) unless the same is upon terms substantially similar to those obtainable from wholly unrelated sources (to the best knowledge of Borrowers, after making reasonable inquiry).

8.8 Loans and Investments. Make any loan, advance, extension of credit or capital contribution to, or make or, except as permitted by Sections 8.4 or 8.9 hereof, have any Investment in, any Person, or make any commitment to make any such extension of credit or Investment, except (a) Permitted Investments; (b) normal and reasonable advances in the ordinary course of business to officers and employees; (c) accounts receivable and accounts payable arising in the ordinary course of business; (d) deposits in money market funds investing exclusively in Permitted Investments; (e) Investments disclosed in the financial statements delivered pursuant to Section 6.2; (f) routine advances by any Obligor to another Obligor (or any Subsidiary of an Obligor) in the ordinary course of business other than Investments, not to exceed \$2,000,000 in the aggregate at any time; (g) Investments by any Obligor in any other Obligor which is not a Foreign Subsidiary or an Excluded Subsidiary, and (h) other Investments not to exceed \$3,000,000 in the aggregate at any time.

8.9 Subsidiaries. Form, create or acquire any Subsidiary, except that U.S. Borrower (or any of its Subsidiaries) may form, create or acquire a wholly-owned Subsidiary so long as (a) immediately thereafter and giving effect thereto, no event will occur and be continuing which constitutes a Default; (b) if such Subsidiary is not a Foreign Subsidiary, (1) such Subsidiary shall execute and deliver to each Agent a Guaranty in substantially the same form as the Guaranties executed concurrently herewith, (2) such Subsidiary shall execute and deliver to U.S. Agent such Security Documents as U.S. Agent may reasonably require in order to create a valid, perfected, first priority Lien upon all of the real and material personal Property of such Subsidiary (subject to exceptions set forth in this Agreement) securing the U.S. Obligations and (3) the applicable owner(s) of the Equity Interests in such Subsidiary shall execute and deliver to U.S. Agent such Security Documents as U.S. Agent may reasonably require in order to create a valid, perfected, first priority Lien upon all of the issued and outstanding Equity Interests in such Subsidiary; (c) if such Subsidiary is a Subsidiary of Canadian Borrower, (1) such Subsidiary shall execute and deliver to Canadian Agent a Guaranty in substantially the same form as the Guaranties executed concurrently herewith in favor of Canadian Agent, (2) such Subsidiary shall execute and deliver to Canadian Agent such Security Documents as Canadian Agent may reasonably require in order to create a valid, perfected, first priority Lien upon all of the real and material personal Property of such Subsidiary (subject to exceptions set forth in this Agreement) securing the Canadian Obligations and (3) the applicable owner(s) of the Equity Interests in such Subsidiary shall execute and deliver to Canadian Agent such Security Documents as Canadian Agent may reasonably require in order to create a valid, perfected, first priority Lien upon all of the issued and outstanding Equity Interests in such Subsidiary securing the Canadian Obligations; (d) if such Subsidiary is a Subsidiary of U.K. Borrower and is not an Excluded Subsidiary, (1) such Subsidiary shall execute and deliver to U.K. Agent a Guaranty in substantially the same form as the Guaranties executed concurrently herewith in favor of U.K. Agent, (2) such Subsidiary shall execute and deliver to U.K. Agent such Security Documents as U.K. Agent may reasonably require in order to create a valid, perfected, first priority Lien upon all of the real and material personal Property of such Subsidiary (subject to exceptions set forth in this Agreement) securing the U.K. Obligations and (3) the applicable owner(s) of the

Equity Interests in such Subsidiary shall execute and deliver to U.K. Agent such Security Documents as U.K. Agent may reasonably require in order to create a valid, perfected, first priority Lien upon all of the issued and outstanding Equity Interests in such Subsidiary securing the U.K. Obligations, and (f) Agents are given at least 10 days' prior written notice of such formation, creation or acquisition. Notwithstanding the foregoing, no Foreign Subsidiary may form, create or acquire a Subsidiary which is not a Foreign Subsidiary and Axsia Serck Baker, Inc., a Texas corporation, may not form, create or acquire any Subsidiary.

8.10 Key Agreements. Terminate or agree to the termination of any Key Agreement or amend, modify or obtain or grant a waiver of any provision of any of the Key Agreements if such action could reasonably be expected to have a Material Adverse Effect (provided that no consent of any Agent or any Bank shall be required with respect to an amendment of the EXIM Facility which has the sole effect of increasing the EXIM Facility to an amount not greater than \$12,500,000).

8.11 Organizational Documents. Amend, modify, restate or supplement any of its Organizational Documents if such action could reasonably be expected to have a Material Adverse Effect.

8.12 Unfunded Liabilities. Incur any Unfunded Liabilities after the Effective Date or allow any Unfunded Liabilities in excess of \$1,000,000, in the aggregate, to arise or exist.

8.13 Operating Lease Expenses. Aggregate operating lease expenses (excluding lease payments under capital leases) shall not exceed, for U.S. Borrower and its Subsidiaries, in the aggregate in any fiscal year, \$5,000,000.

8.14 Sale/Leasebacks. U.S. Borrower will not (and will not permit any of its Subsidiaries to) enter into any sale/leaseback transactions after the date hereof without the prior written consent of the Majority Lenders.

8.15 Acquisitions. Acquire any real Property or any material personal Property after the Effective Date (other than acquisitions of real or personal Property in the ordinary course of business) with respect to which the aggregate cash consideration (exclusive of consideration paid in equity and net of additional equity contributions made to U.S. Borrower by any of its shareholders which is restricted to be used for the applicable acquisition in a manner satisfactory to the Majority Lenders) for a single transaction would exceed \$10,000,000.

8.16 Negative Pledges. Except for (a) any of the Loan Documents, (b) the EXIM Facility, (c) agreements permitted by Section 8.1(f) but only with respect to the Property subject to the Lien permitted thereby; (d) customary provisions in leases, licenses, asset sale agreements and other customary agreements not related to the Borrowed Money Indebtedness and entered into in the ordinary course of business, and (e) restrictions imposed by agreements governing Permitted Liens, enter into any agreement or contract which limits or restricts in any way the granting of Liens by U.S. Borrower or any of its Subsidiaries securing any of the Obligations.

8.17 Synthetic Repurchases of Equity or Debt. Enter into or be party to, or make any payment under, any Synthetic Purchase Agreement unless (i) in the case of any Synthetic Purchase

Agreement related to any Equity Interest, the payments required to be made by the Borrower or its Subsidiaries are limited to amounts permitted to be paid under Section 8.5 hereof and (ii) in the case of any Synthetic Purchase Agreement, the obligations of the Borrower and its Subsidiaries thereunder are subordinated to the Obligations on terms satisfactory to the Majority Lenders.

8.18 Property of Excluded Subsidiaries and Certain Foreign Subsidiaries. Permit the aggregate value (based on the greater of book or market value) of the Property owned by Excluded Subsidiaries or by Foreign Subsidiaries of U.S. Borrower (other than Canadian Borrower, U.K. Borrower or their Subsidiaries) to exceed \$5,000,000.

9. Defaults.

9.1 Events of Default. If any one or more of the following events (herein called "Events of Default") shall occur, then either Agent may (and at the direction of the Majority Lenders, shall) do any or all of the following: (1) without notice to U.S. Borrower, Canadian Borrower, U.K. Borrower or any other Person, declare the U.S. Commitments, the Canadian Commitments and the U.K. Commitments terminated (whereupon the Commitments shall be terminated) and/or accelerate the Termination Date to a date as early as the date of termination of the U.S. Commitments, the Canadian Commitments and the U.K. Commitments; (2) terminate any Letter of Credit allowing for such termination, by sending a notice of termination as provided therein and require the applicable Borrower to provide Cover for outstanding Letters of Credit; (3) declare the principal amount then outstanding of and the unpaid accrued interest on the Loans and Reimbursement Obligations and all fees and all other amounts payable hereunder, under the Notes and under the other Loan Documents to be forthwith due and payable, whereupon such amounts shall be and become immediately due and payable, without notice (including, without limitation, notice of acceleration and notice of intent to accelerate), presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by U.S. Borrower, Canadian Borrower and U.K. Borrower; provided that in the case of the occurrence of an Event of Default with respect to any Obligor referred to in clause (f), (g) or (h) of this Section 9.1, the U.S. Commitments, the Canadian Commitments and the U.K. Commitments shall be automatically terminated and the principal amount then outstanding of and unpaid accrued interest on the Loans and the Reimbursement Obligations and all fees and all other amounts payable hereunder, under the Notes and under the other Loan Documents shall be and become automatically and immediately due and payable, without notice (including, without limitation, notice of acceleration and notice of intent to accelerate), presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by U.S. Borrower, Canadian Borrower and U.K. Borrower, and (4) exercise any or all other rights and remedies available to any Agent or any Lenders under the Loan Documents, at law or in equity:

(a) Payments - (i) any Obligor shall fail to make any payment or required prepayment of any installment of principal on the Loans or any Reimbursement Obligation payable under the Notes, this Agreement or the other Loan Documents when due or (ii) any Obligor fails to make any payment or required payment of interest with respect to the Loans, any Reimbursement Obligation or any other fee or amount under the Notes, this Agreement or the other Loan Documents when due and, in the case of clause (ii) only, such failure to pay continues unremedied for a period of five days; or

(b) Other Obligations - any Obligor shall default in the payment when due of any principal of or interest on any Borrowed Money Indebtedness having an outstanding principal amount of at least \$3,000,000 in the aggregate (other than the Loans and Reimbursement Obligations) and such default shall continue beyond any applicable period of grace and shall give rise to a right on the part of the holder of such Borrowed Money Indebtedness to accelerate such Borrowed Money Indebtedness; or any event or condition shall occur which results in the acceleration of the maturity of any such Borrowed Money Indebtedness or enables (or, with the giving of notice or lapse of time or both, would enable) the holder of any such Borrowed Money Indebtedness or any Person acting on such holder's behalf to accelerate the maturity thereof and such event or condition shall not be cured within any applicable period of grace; or

(c) Representations and Warranties -- any representation or warranty made or deemed made by or on behalf of any Obligor in this Agreement or any other Loan Document or in any certificate furnished or made by any Obligor to Agents or the Lenders in connection herewith or therewith shall prove to have been incorrect, false or misleading in any material respect as of the date thereof or as of the date as of which the facts therein set forth were stated or certified or deemed stated or certified; or

(d) Affirmative Covenants -- (i) default shall be made in the due observance or performance of any of the covenants or agreements contained in Section 7.3 hereof or (ii) default is made in the due observance or performance of any of the other covenants and agreements contained in Section 7 hereof or any other affirmative covenant of any Obligor contained in this Agreement or any other Loan Document and such default continues unremedied for a period of 30 days after (x) notice thereof is given by any Agent to U.S. Borrower, to Canadian Borrower or to U.K. Borrower or (y) such default otherwise becomes known to any executive officer of U.S. Borrower, to Canadian Borrower or to U.K. Borrower, whichever is earlier; or

(e) Negative Covenants - default is made in the due observance or performance by U.S. Borrower, Canadian Borrower or U.K. Borrower of any of the other covenants or agreements contained in Section 8 of this Agreement or of any other negative covenant of any Obligor contained in this Agreement or any other Loan Document; or

(f) Involuntary Bankruptcy or Receivership Proceedings -- a receiver, receiver-manager, interim receiver, monitor, conservator, liquidator or trustee of any Obligor or of any of its Property is appointed by the order or decree of any court or agency or supervisory authority having jurisdiction, and such decree or order remains in effect for more than 90 days; or any Obligor is adjudicated bankrupt or insolvent; or any of such Person's Property is sequestered by court order and such order remains in effect for more than 90 days; or a petition is filed against any Obligor under any state or federal bankruptcy, reorganization, arrangement, insolvency, readjustment or debt, dissolution, liquidation or receivership law or any jurisdiction, whether now or hereafter in effect, and is not dismissed within 90 days after such filing; or

(g) Voluntary Petitions or Consents - any Obligor commences a voluntary case or other proceeding or order seeking liquidation, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or other relief with respect to itself or its debts or other liabilities under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its Property, or consents to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or fails generally to, or cannot, pay its debts generally as they become due or takes any corporate action to authorize or effect any of the foregoing; or

(h) Assignments for Benefit of Creditors or Admissions of Insolvency - any Obligor makes an assignment for the benefit of its creditors, or admits in writing its insolvency (including any admission of its inability to pay its debts generally as they become due), or consents to the appointment of a receiver, receiver-manager, interim receiver, monitor, trustee, or liquidator of such Obligor or of all or any substantial part of its Property; or

(i) Undischarged Judgments - a final non-appealable judgment or judgments for the payment of money exceeding, in the aggregate, \$1,000,000 (exclusive of amounts covered by insurance) is rendered by any court or other governmental body against any Obligor and such Obligor does not discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof within 30 days from the date of entry thereof; or

(j) Security Documents - any Security Document after delivery thereof, shall cease for any reason, except to the extent permitted by the terms of this Agreement or such Security Document, to create a valid and perfected Lien of the first priority (subject to the Permitted Liens), required thereby on any of the Collateral individually or in the aggregate having a fair market value in excess of \$1,000,000 purported to be covered thereby and securing that portion of the Obligations which is therein designated as being secured, or any Obligor (or any other Person who may have granted or purported to grant such Lien) will so state in writing or, after the creation thereof as herein provided, Agents shall cease to have valid, perfected, first priority Liens upon the issued and outstanding Equity Interests in and to all Subsidiaries of U.S. Borrower to the extent required by the terms of this Agreement; or

(k) Change of Control; Ownership of Subsidiaries - (i) any Person other than U.S. Borrower or its Subsidiaries shall own any Equity Interest in any Subsidiary of U.S. Borrower (other than directors' qualifying shares and other than a 15% Equity Interest in NATCO Japan Co., Inc. currently owned by Persons other than U.S. Borrower or its Subsidiaries) or any Person other than an Agent shall acquire any Lien on any Equity Interest in any Subsidiary of U.S. Borrower (other than a subordinate Lien in favor of the holder(s) of the EXIM Facility); or (ii) any Change of Control shall occur; or

(1) Uninsured Loss - any Obligor shall be the subject of any uninsured or unindemnified casualty losses exceeding, in the aggregate, \$1,000,000 in any fiscal year.

9.2 Right of Setoff. Upon the occurrence and during the continuance of any Event of Default, each Lender is hereby authorized at any time and from time to time, without notice to any Obligor (any such notice being expressly waived by U.S. Borrower, Canadian Borrower, U.K. Borrower and the other Obligors), to setoff and apply any and all deposits, whether general or special, time or demand, provisional or final (but excluding the funds held in accounts clearly designated as escrow or trust accounts held by U.S. Borrower, Canadian Borrower, U.K. Borrower or any other Obligor for the benefit of Persons which are not Affiliates of any Obligor), whether or not such setoff results in any loss of interest or other penalty, and including without limitation all certificates of deposit, at any time held, and any other funds or Property at any time held, and other Borrowed Money Indebtedness at any time owing by such Lender to or for the credit or the account of U.S. Borrower, Canadian Borrower, U.K. Borrower or any other Obligor against any and all of the Obligations irrespective of whether or not such Lender or any Agent will have made any demand under this Agreement, the Notes or any other Loan Document. Should the right of any Lender to realize funds in any manner set forth hereinabove be challenged and any application of such funds be reversed, whether by court order or otherwise, the Lenders shall make restitution or refund to U.S. Borrower, Canadian Borrower or U.K. Borrower or the applicable other Obligor, as the case may be, pro rata in accordance with their U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be. Each Lender agrees to promptly notify U.S. Borrower, Canadian Borrower, U.K. Borrower and Agents after any such setoff and application, provided that the failure to give such notice will not affect the validity of such setoff and application. The rights of Agents and the Lenders under this Section are in addition to other rights and remedies (including without limitation other rights of setoff) which Agents or the Lenders may have. This Section is subject to the terms and provisions of Sections 4.5 and 11.7 hereof. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, any amounts realized under this Section which constitute an asset of any Foreign Subsidiary shall only be applied to the payment of Canadian Obligations or U.K. Obligations.

9.3 Collateral Account. U.S. Borrower hereby agrees, in addition to the provisions of Section 9.1 hereof, that upon the occurrence and during the continuance of any Event of Default, it shall, if requested by any Agent or by the Majority Lenders (through any Agent), pay to U.S. Agent an amount in immediately available funds equal to the then aggregate amount available for drawings under all outstanding U.S. Letters of Credit, which funds shall be held by U.S. Agent as Cover. Canadian Borrower hereby agrees, in addition to the provisions of Section 9.1 hereof, that upon the occurrence and during the continuance of any Event of Default, it shall, if requested by any Agent or by the Majority Lenders (through any Agent), pay to Canadian Agent an amount in immediately available funds equal to the sum of the then aggregate amount available for drawings under all outstanding Canadian Letters of Credit plus the unpaid principal balance of all outstanding Bankers' Acceptances, which funds shall be held by Canadian Agent as Cover. U.K. Borrower hereby agrees, in addition to the provisions of Section 9.1 hereof, that upon the occurrence and during the continuance of any Event of Default, it shall, if requested by any Agent or by the Majority Lenders (through any Agent), pay to U.K. Agent an amount in immediately available funds equal to the then aggregate amount available for drawings under all outstanding U.K. Letters of Credit, which funds shall be held by U.K. Agent as Cover.

9.4 Preservation of Security for Letter of Credit Liabilities. In the event that, following (i) the occurrence of an Event of Default and the exercise of any rights available to any Agent or any Lender under the Loan Documents, and (ii) payment in full of the principal amount then outstanding of and the accrued interest on the Loans and Reimbursement Obligations and fees and all other amounts payable hereunder and under the Loan Documents and all other amounts secured by the Security Documents, any Letters of Credit or Bankers' Acceptances shall remain outstanding and undrawn upon, the applicable Agent shall be entitled to hold (and each Borrower and each other Obligor hereby grants and conveys to Agent a security interest in and to) all cash or other Property ("Proceeds of Remedies") realized or arising out of the exercise of any rights available under the Loan Documents, at law or in equity, including, without limitation, the proceeds of any foreclosure, as collateral for the payment of any amounts due or to become due under or in respect of such Letters of Credit and/or such Bankers' Acceptances. Such Proceeds of Remedies shall be held for the ratable benefit of the U.S. Lenders, the Canadian Lenders or U.K. Lenders, as the case may be. The rights, titles, benefits, privileges, duties and obligations of the applicable Agent with respect thereto shall be governed by the terms and provisions of this Agreement and, to the extent not inconsistent with this Agreement, the applicable Security Documents. The applicable Agent may, but shall have no obligation to, invest any such Proceeds of Remedies in such manner as such Agent, in the exercise of its sole discretion, deems appropriate. Such Proceeds of Remedies shall be applied to Reimbursement Obligations arising in respect of any such Letters of Credit, the payment of any Lender's obligations under any such Letter of Credit and/or the Obligations relating to any such Bankers' Acceptance when such Letter of Credit is drawn upon or such Bankers' Acceptance matures, as the case may be. Nothing in this Section shall cause or permit an increase in the maximum amount of the Obligations permitted to be outstanding from time to time under this Agreement. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, any amounts realized under this Section which constitute an asset of any Foreign Subsidiary shall only be applied to the payment of Canadian Obligations or U.K. Obligations.

9.5 Currency Conversion After Maturity. At any time following the occurrence of an Event of Default and the acceleration of the maturity of the Obligations owed to the Canadian Lenders hereunder, the Canadian Lenders shall be entitled to convert, with two (2) Business Days' prior notice to Canadian Borrower, any and all or any part of the then unpaid and outstanding LIBOR Borrowings and Base Rate Borrowings of the Canadian Borrower to Canadian Prime Loans. Any such conversion shall be calculated so that the resulting Canadian Prime Loans shall be the equivalent on the date of conversion of the amount of Dollars so converted. Any accrued and unpaid interest denominated in Dollars at the time of any such conversion shall be similarly converted to Canadian Dollars, and such Canadian Prime Loans and accrued and unpaid interest thereon shall thereafter bear interest in accordance with the terms hereof.

9.6 Remedies Cumulative. No remedy, right or power conferred upon any Agent or any Lender is intended to be exclusive of any other remedy, right or power given hereunder or now or hereafter existing at law, in equity, or otherwise, and all such remedies, rights and powers shall be cumulative.

10. Agents.

10.1 Appointment, Powers and Immunities. Each U.S. Lender hereby irrevocably appoints and authorizes U.S. Agent to act as its agent hereunder, under the U.S. Letters of Credit and under the other Loan Documents with such powers as are specifically delegated to U.S. Agent by the terms hereof and thereof, together with such other powers as are reasonably incidental thereto. Each Canadian Lender hereby irrevocably appoints and authorizes Canadian Agent to act as its agent hereunder, under the Canadian Letters of Credit and under the other Loan Documents with such powers as are specifically delegated to Canadian Agent by the terms hereof and thereof, together with such other powers as are reasonably incidental thereto. Each U.K. Lender hereby irrevocably appoints and authorizes U.K. Agent to act as its agent hereunder, under the U.K. Letters of Credit and under the other Loan Documents with such powers as are specifically delegated to U.K. Agent by the terms hereof and thereof, together with such other powers as are reasonably incidental thereto. Any Loan Documents executed in favor of any Agent shall be held by such Agent for the ratable benefit of the applicable Lenders. None of the Agents ("Agents" as used in this Section 10 shall include reference to their Affiliates and their own and their Affiliates' respective officers, shareholders, directors, employees and agents) (a) shall have any duties or responsibilities except those expressly set forth in this Agreement, the Letters of Credit, and the other Loan Documents, and shall not by reason of this Agreement or any other Loan Document be a trustee or fiduciary for any Lender; (b) shall be responsible to any Lender for any recitals, statements, representations or warranties contained in this Agreement, the Letters of Credit or any other Loan Document, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement, the Letters of Credit or any other Loan Document, or for the value, validity, effectiveness, genuineness, enforceability, execution, filing, registration, collectibility, recording, perfection, existence or sufficiency of this Agreement, the Letters of Credit, or any other Loan Document or any other document referred to or provided for herein or therein or any Property covered thereby or for any failure by any Obligor or any other Person to perform any of its obligations hereunder or thereunder, or shall have any duty to inquire into or pass upon any of the foregoing matters; (c) shall be required to initiate or conduct any litigation or collection proceedings hereunder or under the Letters of Credit or any other Loan Document except to the extent requested and adequately indemnified by the Majority Lenders; (d) shall be responsible for any mistake of law or fact or any action taken or omitted to be taken by it hereunder or under the Letters of Credit or any other Loan Document or any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, including, without limitation, pursuant to its own negligence, except for its own gross negligence or willful misconduct; (e) shall be bound by or obliged to recognize any agreement among or between any Borrower and any Lender to which such Agent is not a party, regardless of whether such Agent has knowledge of the existence of any such agreement or the terms and provisions thereof; (f) shall be charged with notice or knowledge of any fact or information not herein set out or provided to such Agent in accordance with the terms of this Agreement or any other Loan Document; (g) shall be responsible for any delay, error, omission or default of any mail, telegraph, cable or wireless agency or operator, and (h) shall be responsible for the acts or edicts of any Governmental Authority. Any Agent may employ agents and attorneys-in-fact and none of the Agents shall be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. Without in any way limiting any of the foregoing, each Lender acknowledges that none of the Agents (nor any Issuer) shall have greater responsibility in the operation of the Letters of Credit than is specified in the Uniform Customs and

Practice for Documentary Credits (1993 Revision, International Chamber of Commerce Publication No. 500). In any foreclosure proceeding concerning any Collateral, each holder of an Obligation if bidding for its own account or for its own account and the accounts of other Lenders is prohibited from including in the amount of its bid an amount to be applied as a credit against the Obligations held by it or the Obligations held by the other Lenders; instead, such holder must bid in cash only. However, in any such foreclosure proceeding, (i) U.S. Agent may (but shall not be obligated to) submit a bid for all U.S. Lenders (including itself) in the form of a credit against the U.S. Obligations, and U.S. Agent or its designee may (but shall not be obligated to) accept title to such collateral for and on behalf of all U.S. Lenders, (ii) Canadian Agent may (but shall not be obligated to) submit a bid for all Canadian Lenders (including itself) in the form of a credit against the Canadian Obligations, and Canadian Agent or its designee may (but shall not be obligated to) accept title to such collateral for and on behalf of all Canadian Lenders and (iii) U.K. Agent may (but shall not be obligated to) submit a bid for all U.K. Lenders (including itself) in the form of a credit against the U.K. Obligations, and U.K. Agent or its designee may (but shall not be obligated to) accept title to such collateral for and on behalf of all U.K. Lenders.

10.2 Reliance. Each Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel (which may be counsel for any Borrower), independent accountants and other experts selected by such Agent. None of the Agents shall be required in any way to determine the identity or authority of any Person delivering or executing the same. As to any matters not expressly provided for by this Agreement, the Letters of Credit, or any other Loan Document, each Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and thereunder in accordance with instructions of the Majority Lenders, and any action taken or failure to act by U.S. Agent pursuant thereto shall be binding on all of the U.S. Lenders, any action taken or failure to act by Canadian Agent pursuant thereto shall be binding on all of the Canadian Lenders and any action taken or failure to act by U.K. Agent pursuant thereto shall be binding on all of the U.K. Lenders. Pursuant to instructions of the Majority Lenders, the Agents shall have the authority to execute releases of the Security Documents on behalf of the Lenders without the joinder of any Lender. If any order, writ, judgment or decree shall be made or entered by any court affecting the rights, duties and obligations of any Agent under this Agreement or any other Loan Document, then and in any of such events such Agent is authorized, in its sole discretion, to rely upon and comply with such order, writ, judgment or decree which it is advised by legal counsel of its own choosing is binding upon it under the terms of this Agreement, the relevant Loan Document or otherwise; and if such Agent complies with any such order, writ, judgment or decree, then it shall not be liable to any Lender or to any other Person by reason of such compliance even though such order, writ, judgment or decree may be subsequently reversed, modified, annulled, set aside or vacated.

10.3 Defaults. None of the Agents shall be deemed to have knowledge of the occurrence of a Default (other than the non-payment of principal of or interest on Loans or Reimbursement Obligations) unless such Agent has received notice from a Lender or a Borrower specifying such Default and stating that such notice is a "Notice of Default." In the event that any Agent receives such a Notice of Default, such Agent shall give prompt notice thereof to the Lenders (and shall give each Lender prompt notice of each such non-payment). Each Agent shall (subject to Section 10.7 hereof) take such action with respect to such Notice of Default as shall be directed by the Majority Lenders and within its rights under the Loan Documents and at law or in equity, provided that,

unless and until an Agent shall have received such directions, such Agent may (but shall not be obligated to) take such action, or refrain from taking such action, permitted hereby with respect to such Notice of Default as it shall deem advisable in the best interests of the Lenders and within its rights under the Loan Documents, at law or in equity.

10.4 Material Written Notices. In the event that any Agent receives any written notice of a material nature from any Borrower or any Obligor under the Loan Documents, such Agent shall promptly inform each of the Lenders thereof.

10.5 Rights as a Lender. With respect to their U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be, and the Obligations, each of Chase, RBC and Chase U.K., in its capacity as a Lender hereunder, shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting in its agency capacity, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include each Agent in its individual capacity. Each Agent may (without having to account therefor to any Lender) accept deposits from, lend money to and generally engage in any kind of banking, trust, letter of credit, agency or other business with any Borrower (and any of their Affiliates) as if it were not acting as an Agent, and each Agent may accept fees and other consideration from any Borrower (in addition to the fees heretofore agreed to between any Borrower and any Agent) for services in connection with this Agreement or otherwise without having to account for the same to the Lenders.

10.6 Indemnification. The Canadian Lenders, the U.S. Lenders and U.K. Lenders, respectively, agree to indemnify Canadian Agent, U.S. Agent and U.K. Agent, respectively (to the extent not reimbursed under Section 2.2(c), Section 11.3 or Section 11.4 hereof, but without limiting the obligations of any Borrower under said Sections 2.2(c), 11.3 and 11.4), ratably in accordance with the sum of the applicable Lenders' respective U.S. Commitments, Canadian Commitments, U.K. Commitments and Term Loans, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever, REGARDLESS OF WHETHER CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE OF ANY INDEMNIFIED PARTIES, which may be imposed on, incurred by or asserted against the applicable Agent in any way relating to or arising out of this Agreement, the Letters of Credit or any other Loan Document or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including, without limitation, the costs and expenses which any Borrower is obligated to pay under Sections 2.2(c), 11.3 and 11.4 hereof, interest, penalties, attorneys' fees and amounts paid in settlement, but excluding, unless a Default has occurred and is continuing, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents; provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified. The obligations of the Lenders under this Section 10.6 shall survive the termination of this Agreement and the repayment of the Obligations.

10.7 Non-Reliance on Agents and Other Lenders. Each Lender agrees that it has received current financial information with respect to each Borrower and each other Obligor and that it has, independently and without reliance on any Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis of each Borrower and each other Obligor and decision to enter into this Agreement and that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information

as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any of the other Loan Documents. None of the Agents shall be required to keep itself informed as to the performance or observance by any Obligor of this Agreement, the Letters of Credit or any of the other Loan Documents or any other document referred to or provided for herein or therein or to inspect the properties or books of any Obligor. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by an Agent hereunder, under the Letters of Credit or the other Loan Documents, none of the Agents shall have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of any Obligor (or any of their affiliates) which may come into the possession of any Agent.

10.8 Failure to Act. Except for action expressly required of an Agent hereunder, under the Letters of Credit or under the other Loan Documents, each Agent shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction by the Lenders of their indemnification obligations under Section 10.6 hereof against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

10.9 Resignation or Removal of Agent. Subject to the appointment and acceptance of a successor U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, as provided below, U.S. Agent, Canadian Agent and U.K. Agent, respectively, may resign at any time by giving notice thereof to the U.S. Lenders, the Canadian Lenders and U.K. Lenders, respectively, and to U.S. Borrower, Canadian Borrower and U.K. Borrower, respectively. Any Agent may be removed at any time with or without cause by the Majority Lenders; provided, that such Agent shall continue as U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, until such time as any successor shall have accepted appointment hereunder as U.S. Agent, Canadian Agent or U.K. Agent, as the case may be. Upon any such resignation or removal, (i) the Majority Lenders without the consent of any Borrower shall have the right to appoint a successor U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, so long as such successor U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, is also a Lender at the time of such appointment and (ii) the Majority Lenders shall have the right to appoint a successor U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, that is not a Lender at the time of such appointment so long as Borrowers consent to such appointment (which consent shall not be unreasonably withheld). If no successor U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, shall have been so appointed by the Majority Lenders and accepted such appointment within 30 days after the retiring U.S. Agent's, Canadian Agent's or U.K. Agent's, as the case may be, giving of notice of resignation or the Majority Lenders' removal of the retiring U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, then the retiring Agent may, on behalf of the applicable Lenders, appoint a successor U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, without the necessity of any consent on the part of any Borrower or any Lender. Any successor U.S. Agent shall be a bank which has an office in the United States and a combined capital and surplus of at least \$250,000,000, any successor Canadian Agent shall be a bank which has an office in Canada and a combined capital and surplus of at least C\$250,000,000 and any successor U.K. Agent shall be a bank which has an office in the United Kingdom and a combined capital and surplus of at least (pound)100,000,000. Upon the acceptance of any appointment as U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent and the retiring Agent shall be discharged from its duties and obligations hereunder and under any other Loan Documents. Such successor Agent shall promptly specify by

notice to Borrowers its Principal Office referred to in Section 3.1 and Section 4 hereof. After any retiring Agent's resignation or removal hereunder as an Agent, the provisions of this Section 10 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

10.10 No Partnership. Neither the execution and delivery of this Agreement nor any of the other Loan Documents nor any interest the Lenders, Agents or any of them may now or hereafter have in all or any part of the Obligations shall create or be construed as creating a partnership, joint venture or other joint enterprise between the Lenders or among the Lenders and any Agent. The relationship between the Lenders, on the one hand, and any Agent, on the other, is and shall be that of principals and agent only, and nothing in this Agreement or any of the other Loan Documents shall be construed to constitute any Agent as trustee or other fiduciary for any Lender or to impose on any Agent any duty, responsibility or obligation other than those expressly provided for herein and therein.

10.11 Authority of Agent. Each Lender acknowledges that the rights and responsibilities of each Agent under this Agreement and the Loan Documents with respect to any action taken by such Agent or the exercise or non-exercise by any Agent of any option, right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement and/or the other Loan Documents shall, as between such Agent and the Lenders, be governed by this Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between such Agent and the Obligors, such Agent shall be conclusively presumed to be acting as agent for the applicable Lenders with full and valid authority so to act or refrain from acting; and each Obligor shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

10.12 Syndications Agent; Documentation Agent. Bank One, NA (Main Office Chicago Illinois), in its capacity as Syndications Agent, shall have no rights, powers, duties, obligations or liabilities under this Agreement or any of the other Loan Documents, but to the extent that for any reason any Person makes a claim against Bank One, NA (Main Office Chicago Illinois) in its capacity as Syndications Agent and not as a Lender the indemnification provisions in Sections 10.6 and 11.4 shall apply. Wells Fargo Bank Texas, National Association, in its capacity as Documentation Agent, shall have no rights, powers, duties, obligations or liabilities under this Agreement or any of the other Loan Documents, but to the extent that for any reason any Person makes a claim against Wells Fargo Bank Texas, National Association in its capacity as Documentation Agent and not as a Lender the indemnification provisions in Sections 10.6 and 11.4 shall apply.

11. Miscellaneous.

11.1 Waiver. No waiver of any Default or Event of Default shall be a waiver of any other Default or Event of Default. No failure on the part of any Agent or any Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided in the Loan Documents are cumulative and not exclusive of any remedies provided by law or in equity.

11.2 Notices. All notices and other communications provided for herein (including, without limitation, any modifications of, or waivers or consents under, this Agreement) shall be given or made by telegraph, telecopy (confirmed by mail), cable or other writing and telecopied, telegraphed, cabled, mailed or delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof (or provided for in an Assignment and Acceptance); or, as to any party hereto, at such other address as shall be designated by such party in a notice (given in accordance with this Section) (i) as to any Borrower, to Agents, (ii) as to U.S. Agent, to U.S. Borrower and to each U.S. Lender, (iii) as to Canadian Agent, to Canadian Borrower and to each Canadian Lender, (iv) as to U.K. Agent, to U.K. Borrower and to each U.K. Lender, (v) as to any U.S. Lender, to U.S. Borrower and Agents, (vi) as to any Canadian Lender, to Canadian Borrower and Agents and (vii) as to any U.K. Lender, to U.K. Borrower and Agents. Except as otherwise provided in this Agreement, all such notices or communications shall be deemed to have been duly given when (a) transmitted by telecopier or delivered to the telegraph or cable office, (b) personally delivered (c) one Business Day after deposit with an overnight mail or delivery service, postage prepaid or (d) three Business Days' after deposit in a receptacle maintained by the United States Postal Service or Canada Post or the official postal service of the United Kingdom, as the case may be, postage prepaid, registered or certified mail, return receipt requested, in each case given or addressed as aforesaid.

11.3 Expenses, Etc. Whether or not any Loan is ever made or any Bankers' Acceptances ever accepted and purchased or any Letter of Credit ever issued, Borrowers shall pay or reimburse within 10 Business Days after written demand (a) any Agent for paying the reasonable fees and expenses of legal counsel to such Agent, together with the reasonable fees and expenses of each local counsel to such Agent, in connection with the preparation, negotiation, execution and delivery of this Agreement (including the exhibits and schedules hereto), the Security Documents and the other Loan Documents and the making of the Loans and the acceptance and purchase of Bankers' Acceptances and the issuance of Letters of Credit hereunder, and any modification, supplement or waiver of any of the terms of this Agreement, the Letters of Credit or any other Loan Document; (b) any Agent for any reasonable and customary search fees, collateral audit fees, appraisal fees, survey fees, environmental study fees, and title insurance costs and premiums; (c) any Agent for reasonable out-of-pocket expenses incurred in connection with the preparation, documentation, administration and syndication of the Loans or any of the Loan Documents (including, without limitation, the advertising, marketing, printing, publicity, duplicating, mailing and similar expenses) of the Loans and Letter of Credit Liabilities; (d) Agent for paying all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement, any Letter of Credit or any other Loan Document or any other document referred to herein or therein; (e) any Agent for paying all costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration, recording or perfection of any Lien contemplated by this Agreement, any Security Document or any document referred to herein or therein, and (f) following the occurrence and during the continuation of an Event of Default, any Lender or any Agent for paying all amounts reasonably expended, advanced or incurred by such Lender or such Agent to satisfy any obligation of any Obligor under this Agreement or any other Loan Document, to protect the Collateral, to collect the Obligations or to enforce, protect, preserve or defend the rights of the Lenders or Agents under this Agreement or any other Loan Document, including, without limitation, fees and expenses incurred in connection with such Lender's or such Agent's participation as a member of a creditor's committee in a case commenced under the Bankruptcy Code or the Insolvency Act 1986 (England and Wales) or other similar law, fees and expenses incurred in connection with lifting the automatic stay prescribed in ss. 362 of the Bankruptcy Code or the

Insolvency Act 1986 (England and Wales) and fees and expenses incurred in connection with any action pursuant to ss. 1129 of the Bankruptcy Code or the Insolvency Act 1986 (England and Wales) and all other reasonable and customary out-of-pocket expenses incurred by such Lender or such Agent in connection with such matters, together with interest thereon at the Past Due Rate applicable to U.S. Loans on each such amount from the due date until the date of reimbursement to such Lender or such Agent.

11.4 Indemnification. Borrowers, jointly and severally, shall indemnify each Agent, each Lender and each affiliate thereof and their respective directors, officers, employees and agents from, and hold each of them harmless against, any and all losses, liabilities, claims or damages to which any of them may become subject, REGARDLESS OF WHETHER CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE OF ANY INDEMNIFIED PARTIES, insofar as such losses, liabilities, claims or damages arise out of or result from any (i) actual or proposed use by any Borrower of the proceeds of any extension of credit (whether a Loan, a Bankers' Acceptance or a Letter of Credit) by any Lender hereunder; (ii) breach by any Obligor of this Agreement or any other Loan Document; (iii) violation by any Obligor of any Legal Requirement, or (iv) investigation, litigation or other proceeding relating to any of the foregoing, and Borrowers, jointly and severally, shall reimburse each Agent, each Lender, and each Affiliate thereof and their respective directors, officers, employees and agents, upon demand for any reasonable and customary expenses (including reasonable and customary legal fees) incurred in connection with any such investigation or proceeding; provided, however, that none of the Borrowers shall have any obligations pursuant to this Section with respect to any losses, liabilities, claims, damages or expenses incurred by the Person seeking indemnification by reason of the gross negligence or willful misconduct of that Person or with respect to any disputes between or among any of Agents, Lenders and Issuers. Nothing in this Section is intended to limit the obligations of any Borrower under any other provision of this Agreement. Each Agent and each Lender, respectively, shall indemnify Borrowers and hold Borrowers harmless from and against the gross negligence or willful misconduct of such Agent or such Lender, as the case may be. Nothing in this Section shall render Canadian Borrower or U.K. Borrower liable in respect of the U.S. Obligations. In the case of any indemnification hereunder, the applicable Agent or the respective Lender, as appropriate, shall give written notice to the applicable Borrower of any such claim or demand being made against an indemnified person and the applicable Borrower shall have the non-exclusive right to join in the defense against any such claim or demand, provided that if such Borrower provides a defense, the indemnified person shall bear its own cost of defense unless there is a conflict of interests between such Borrower and such indemnified person. No indemnified person may settle any claim to be indemnified without the consent of the applicable Borrower, such consent not to be unreasonably withheld or delayed.

11.5 Amendments, Etc. No amendment or modification of this Agreement, the Notes or any other Loan Document shall in any event be effective against any Borrower or any other Obligor party thereto unless the same shall be agreed or consented to in writing by such Person. No amendment, modification or waiver of any provision of this Agreement, the Notes or any other Loan Document, nor any consent to any departure by any Obligor therefrom, shall in any event be effective against the Lenders unless the same shall be agreed or consented to in writing by the Majority Lenders, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, that no amendment, modification, waiver or consent shall, unless in writing and signed by each Lender affected thereby, do any of the following: (a) increase any U.S. Commitments, Canadian Commitments or U.K. Commitments of any of the Lenders (or reinstate any termination or reduction of the U.S. Commitments, Canadian

Commitments or U.K. Commitments), or subject any of the Lenders to any additional obligations; (b) reduce the principal of, or interest on, any Loan, Reimbursement Obligation, fee or other amount due hereunder or amend Section 3.2(b)(2) hereof; (c) postpone or extend the Revolving Loan Maturity Date, the Term Loan Maturity Date, the Termination Date, the Availability Period or any scheduled date fixed for any payment of principal of, or interest on, any Loan, Reimbursement Obligation, fee or other sum to be paid hereunder or waive any Event of Default described in Section 9.1(a) hereof; (d) change the percentage of any of the U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be, or of the aggregate unpaid principal amount of Obligations, or the percentage of Lenders, which shall be required for the Lenders or any of them to take any action under this Agreement; (e) change any provision contained in Sections 2.2(c), 7.9, 11.3 or 11.4 hereof or this Section 11.5; (f) release any Person from liability under a Guaranty or release all or substantially all of the security for the Obligations or release Collateral (exclusive of Collateral with respect to which any Agent is obligated to provide a release pursuant to this Agreement or any of the other Loan Documents or by law) in any one (1) calendar year ascribed an aggregate value on the most recent financial statements of the applicable Borrower delivered to Agents in excess of \$1,000,000; (g) increase any of the fixed percentages to be multiplied by the aggregate amounts of the components comprising the U.S. Borrowing Base, the Canadian Borrowing Base or U.K. Borrowing Base that are described in (i) and (ii) of the definition of the U.S. Borrowing Base, the Canadian Borrowing Base or U.K. Borrowing Base herein, and (h) modify the provisions of Sections 4.1(b) or 4.2 hereof regarding pro rata application of amounts after an Event of Default shall have occurred and be continuing. Notwithstanding anything in this Section 11.5 to the contrary, no amendment, modification, waiver or consent shall be made with respect to Section 10 without the consent of U.S. Agent to the extent it affects U.S. Agent, as U.S. Agent or Canadian Agent to the extent it affects Canadian Agent, as Canadian Agent or U.K. Agent to the extent it affects U.K. Agent, as U.K. Agent.

11.6 Successors and Assigns.

(a) This Agreement shall be binding upon and inure to the benefit of Borrowers, Agents and the Lenders and their respective successors and assigns; provided, however, that, except as permitted by Section 8.4 hereof, no Borrower may assign or transfer any of its rights or obligations hereunder without the prior written consent of all of the Lenders, and any such assignment or transfer without such consent shall be null and void. Each Lender may sell participations to any Person in all or part of any Loan or Bankers' Acceptance, or all or part of its Notes, U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be, or interests in Letters of Credit or Bankers' Acceptances, in which event, without limiting the foregoing, the provisions of the Loan Documents shall inure to the benefit of each purchaser of a participation; provided, however, the pro rata treatment of payments, as described in Section 4.2 hereof and rights to compensation under Section 3.3 hereof, shall be determined as if such Lender had not sold such participation. No Lender that sells one or more participations to any Person shall be relieved by virtue of such participation from any of its obligations to Borrowers under this Agreement. In the event any Lender shall sell any participation, such Lender shall retain the sole right and responsibility to enforce the obligations of Borrowers hereunder, including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement other than amendments, modifications or waivers with respect to (i) any fees payable hereunder to the Lenders, (ii) the amount of principal or the rate of interest payable on, or the dates fixed for the scheduled repayment of principal of, any of the Obligations and (iii) the release of the Liens on all or substantially all of the Collateral.

(b) Each U.S. Lender may assign to one or more U.S. Lenders or any other Person all or a portion of its interests, rights and obligations under this Agreement; provided, however, that (i) the aggregate amount of the U.S. Commitments and Term Loans of the assigning U.S. Lender subject to each such assignment shall in no event be less than \$5,000,000 and (ii) other than in the case of an assignment to another U.S. Lender (that is, at the time of the assignment, a party hereto) or to a Lender Affiliate of such U.S. Lender or to a Federal Reserve Bank, Agents and, so long as no Event of Default shall have occurred and be continuing, U.S. Borrower must each give its prior written consent, which consents shall not be unreasonably withheld. Each Canadian Lender may assign to one or more Canadian Lenders or any other Person all or a portion of its interests, rights and obligations under this Agreement; provided, however, that (i) the aggregate amount of the Canadian Commitments of the assigning Canadian Lender subject to each such assignment shall in no event be less than \$5,000,000 and (ii) other than in the case of an assignment to another Canadian Lender (that is, at the time of the assignment, a party hereto) or to a Lender Affiliate of such Canadian Lender, Agents and, so long as no Event of Default shall have occurred and be continuing, Canadian Borrower must each give its prior written consent, which consents shall not be unreasonably withheld. Each U.K. Lender may assign to one or more U.K. Lenders or any other Person all or a portion of its interests, rights and obligations under this Agreement; provided, however, that (i) the aggregate amount of the U.K. Commitments of the assigning U.K. Lender subject to each such assignment shall in no event be less than \$5,000,000 and (ii) other than in the case of an assignment to another U.K. Lender (that is, at the time of the assignment, a party hereto) or to a Lender Affiliate of such U.K. Lender, Agents and, so long as no Event of Default shall have occurred and be continuing, U.K. Borrower must each give its prior written consent, which consents shall not be unreasonably withheld. After giving effect to any assignment (other than an assignment of all of the commitments and Loans of the assigning Lender), the assigning Lender shall have commitments and Loans aggregating at least \$5,000,000 unless otherwise agreed to by the U.S. Borrower and the U.S. Agent. As a condition precedent to any such assignment, the parties to each such assignment shall execute and deliver to the applicable Agent, for its acceptance an Assignment and Acceptance in substantially the form of Exhibit E hereto (each an "Assignment and Acceptance") with blanks appropriately completed, together with any Note or Notes subject to such assignment and a processing and recording fee of \$3,000 paid by the assignee (for which Borrowers will have no liability). Upon such execution, delivery and acceptance, from and after the effective date specified in each Assignment and Acceptance, (A) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (B) the Lender thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto except in respect of provisions of this Agreement which survive payment of the Obligations and termination of the U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be). Notwithstanding anything contained in this Agreement to the contrary, any Lender may at any time assign all or any portion of its rights under this Agreement and the other Loan Documents as collateral to a Federal Reserve Bank; provided that no such assignment shall release such Lender from any of its obligations hereunder.

(c) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, such Lender

assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or any of the other Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any of the other Loan Documents or any other instrument or document furnished pursuant thereto; (ii) such Lender assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or any Obligor or the performance or observance by any Borrower or any Obligor of any of its obligations under this Agreement or any of the other Loan Documents to which it is a party or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements most recently delivered under either Section 6.2 or Section 7.2 hereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon any Agent, such Lender assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents; (v) such assignee appoints and authorizes U.S. Agent, Canadian Agent or U.K. Agent, as the case may be, to take such action as agent on its behalf and to exercise such powers under this Agreement and the other Loan Documents as are delegated to such Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vi) such assignee agrees that it will perform in accordance with their terms all obligations that by the terms of this Agreement and the other Loan Documents are required to be performed by it as a Lender.

(d) The entries in the records of each applicable Agent as to each Assignment and Acceptance delivered to it and the names and addresses of the Lenders and the U.S. Commitments, Canadian Commitments or U.K. Commitments of, and principal amount of the Obligations owing to, each Lender from time to time shall be conclusive, in the absence of manifest error, and Obligors, Agents and the Lenders may treat each Person the name of which is recorded in the books and records of the applicable Agent as a Lender hereunder for all purposes of this Agreement and the other Loan Documents.

(e) Upon the applicable Agent's receipt of an Assignment and Acceptance executed by an assigning Lender and the assignee thereunder, together with any Note or Notes subject to such assignment and the written consent to such assignment (to the extent consent is required), such Agent shall, if such Assignment and Acceptance has been completed with blanks appropriately filled, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in its records and (iii) give prompt notice thereof to the applicable Borrower. Within five Business Days after receipt of notice, the applicable Borrower, at its own expense, shall execute and deliver to the applicable Agent new Notes payable to the order of such assignee in the appropriate amounts and, if the assigning Lender has retained U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be, or Term Loans hereunder, new Notes to the order of the assigning Lender in the appropriate amounts. Such new Notes shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in the forms required hereunder. Thereafter, the replaced Notes shall be surrendered to the applicable Agent by the applicable Lender or Lenders, marked renewed and substituted and the originals thereof delivered to the applicable Borrower (with copies to be retained by the applicable Agent).

(f) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 11.6, disclose to the assignee or participant or proposed assignee or participant, any information relating to any Borrower furnished to such Lender by or on behalf of any Borrower; provided such Person agrees to maintain the confidentiality of such information in accordance with Section 11.19.

11.7 Limitation of Interest. U.S. Borrower, U.K. Borrower, U.S. Lenders and U.K. Lenders intend to strictly comply with all applicable usury laws of the United States and Texas (or the usury laws of any jurisdiction, including Canada, whose usury laws are deemed to apply to the Notes or any other Loan Documents despite the intention and desire of the parties to apply the usury laws of the State of Texas). Canadian Borrower and the Canadian Lenders intend to strictly comply with all applicable usury laws in effect in Canada (or the usury laws of any jurisdiction, including the State of Texas, whose usury laws are deemed to apply to the Notes or any other Loan Documents despite the intention and desire of the parties to apply the usury laws in effect in Canada). Accordingly, the provisions of this Section 11.7 shall govern and control over every other provision of this Agreement or any other Loan Document which conflicts or is inconsistent with this Section, even if such provision declares that it controls. As used in this Section, the term "interest" includes the aggregate of all charges, fees, benefits or other compensation which constitute interest under applicable law, provided that, to the maximum extent permitted by applicable law, (a) any non-principal payment shall be characterized as an expense or as compensation for something other than the use, forbearance or detention of money and not as interest and (b) all interest at any time contracted for, reserved, charged or received shall be amortized, prorated, allocated and spread during the full term of the Obligations. In no event shall Borrowers or any other Person be obligated to pay, or any Agent, any Issuer or any Lender have any right or privilege to reserve, receive or retain, (a) any interest in excess of the maximum amount of nonusurious interest permitted under applicable laws or (b) total interest in excess of the amount which such Person could lawfully have contracted for, reserved, received, retained or charged had the interest been calculated for the full term of the Obligations at the Ceiling Rate. None of the terms and provisions contained in this Agreement or in any other Loan Document (including, without limitation, Section 9.1 hereof) which directly or indirectly relate to interest shall ever be construed without reference to this Section 11.7, or be construed to create a contract to pay for the use, forbearance or detention of money at an interest rate in excess of the Ceiling Rate. If the term of any Obligation is shortened by reason of acceleration of maturity as a result of any Default or by any other cause, or by reason of any required or permitted prepayment, and if for that (or any other) reason any Agent, any Issuer or any Lender at any time, including but not limited to, the stated maturity, is owed or receives (and/or has received) interest in excess of interest calculated at the Ceiling Rate, then and in any such event all of any such excess interest shall be canceled automatically as of the date of such acceleration, prepayment or other event which produces the excess, and, if such excess interest has been paid to such Person, it shall be credited pro tanto against the then-outstanding principal balance of the applicable Borrower's obligations to such Person, effective as of the date or dates when the event occurs which causes it to be excess interest, until such excess is exhausted or all of such principal has been fully paid and satisfied, whichever occurs first, and any remaining balance of such excess shall be promptly refunded to its payor.

11.8 Survival. The obligations of Borrowers under Sections 2.2(c), 2.2(d), 7.9, 11.3 and 11.4 hereof and all other obligations of Borrowers in any other Loan Document (to the extent stated therein), the obligations of each Issuer under the last sentence of Section 2.2(b)(iii) and the obligations of the Lenders under Sections 4.1(d), 10.6, 11.7, 11.13, 11.18 and 11.19 hereof, shall,

notwithstanding anything herein to the contrary, survive the repayment of the Loans and Reimbursement Obligations and the termination of the U.S. Commitments, the Canadian Commitments, the U.K. Commitments and the Letters of Credit.

11.9 Captions. Captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

11.10 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same agreement and any of the parties hereto may execute this Agreement by signing any such counterpart.

11.11 Governing Law. THIS AGREEMENT AND (EXCEPT AS THEREIN PROVIDED) THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE APPLICABLE LAWS OF THE STATE OF TEXAS AND THE UNITED STATES OF AMERICA FROM TIME TO TIME IN EFFECT; PROVIDED, HOWEVER, THAT, EXCEPT AS MAY BE REQUIRED UNDER APPLICABLE LAWS, THE USURY LAWS OF THE STATE OF TEXAS OR THE UNITED STATES OF AMERICA SHALL NOT APPLY TO LOANS MADE TO AND BANKERS ACCEPTANCES ACCEPTED IN CANADA BY CANADIAN LENDERS DRAWN BY CANADIAN BORROWER, BUT RATHER THE USURY LAWS IN EFFECT IN CANADA SHALL GOVERN IN SUCH CONTEXT.

11.12 Severability. Whenever possible, each provision of the Loan Documents shall be interpreted in such manner as to be effective and valid under applicable law. If any provision of any Loan Document shall be invalid, illegal or unenforceable in any respect under any applicable law, the validity, legality and enforceability of the remaining provisions of such Loan Document shall not be affected or impaired thereby.

11.13 Tax Forms; Net Payments.

(a) Each U.S. Lender which is organized under the laws of a jurisdiction outside the United States shall, on the day of the initial borrowing from each such U.S. Lender hereunder and from time to time thereafter if requested by U.S. Borrower or U.S. Agent, provide U.S. Agent and U.S. Borrower with the forms prescribed by the Internal Revenue Service of the United States certifying as to such U.S. Lender's status for purposes of determining exemption from United States withholding taxes with respect to all payments to be made to such U.S. Lender hereunder or other documents satisfactory to such U.S. Lender, U.S. Borrower and U.S. Agent indicating that all payments to be made to such U.S. Lender hereunder are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty. Unless U.S. Borrower and U.S. Agent shall have received such forms or such documents indicating that payments to such U.S. Lender hereunder are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, U.S. Borrower and U.S. Agent shall be entitled to withhold taxes from such payments at the applicable statutory rate.

(b) Each Canadian Lender is a resident of Canada for purposes of the Income Tax Act (Canada).

(c) Each U.K. Lender is a Qualifying Lender. In this Section 11.13(c), "Qualifying Lender" means (a) a Lender which is within the charge to U.K. corporation tax in respect of, and beneficially entitled to, a payment of interest on a loan made by a person that was a bank for the purposes of section 349 of the Income and Corporation Taxes Act 1988 (as currently defined in section 840A of the Income and Corporation Taxes Act) at the time the loan was made, or (b) a Lender which is, on the date a payment of interest falls due hereunder, resident (as defined in the appropriate double taxation agreement) in a country with which the U.K. has a double taxation agreement giving residents of that country exemption from U.K. taxation on interest and does not carry on a business in the U.K. through a permanent establishment with which the payment is effectively connected.

(d) Each U.K. Lender shall (i) promptly after the date hereof or promptly after the date of an Assignment and Acceptance pursuant to which it became a Lender and (ii) from time to time thereafter upon the obsolescence or expiration of any previously delivered form or certificate (but only so long as such Lender remains lawfully able to do so) provide the Borrowers and the Agents with any form or certificate that is required by any taxing authority, or other such forms as shall be appropriate to establish, that such Lender is (y) exempt from Home Jurisdiction Withholding Taxes on payments pursuant to this Agreement or any other Loan Document. Each U.K. Lender represents and warrants that such information is true and complete in all material respects as of the date it is delivered. Each such Lender shall promptly notify the Borrowers and the Agents if, because of any change in the jurisdiction of organization or the principle office of such Lender, (A) it is required to withdraw or cancel any form or certificate previously submitted by it or any form or certificate has otherwise become ineffective or inaccurate or (B) payments to it are or will be subject to withholding of any Home Jurisdiction Withholding Tax to a greater or lesser extent than the extent to which payments to it pursuant to this Agreement, the Notes or any other Loan Document were previously subject.

(e) If a Lender shall receive a refund of any Taxes paid by a Borrower pursuant to this Agreement by reason of the fact that such Taxes were not correctly or legally asserted, such Lender shall within 90 days after receipt of such refund pay to such Borrower the amount of such refund along with any interest actually received by such Lender thereon, if any; provided, however, that such payments shall be required only to the extent any Lender can determine, in its good faith judgment, that such refunds are attributable to payments made by or on behalf of such Borrower; and provided, further, that no Lender shall have any obligation under this Agreement to claim or otherwise seek to obtain any such refund, but agrees to use reasonable efforts to assist a Borrower in doing so.

11.14 Interest Act (Canada). Whenever interest is calculated on the basis of a year of 360 or 365 days, for the purposes of the Interest Act (Canada), the yearly rate of interest which is equivalent to the rate payable hereunder is the rate payable multiplied by the actual number of days in the year and divided by 360 or 365, as the case may be. All interest will be calculated using the nominal rate method and not the effective rate method and the deemed reinvestment principle shall not apply to such calculations.

11.15 Judgment Currency. The obligation of each Borrower to make payments on any Obligation to the Lenders or to any Agent hereunder in any currency (the "first currency") shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any other currency (the "second currency") except to the extent to which such tender

or recovery shall result in the effective receipt by the applicable Lender or the applicable Agent of the full amount of the first currency payable, and accordingly the primary obligation of each Borrower shall be enforceable as an alternative or additional cause of action for the purpose of recovery in the second currency of the amount (if any) by which such effective receipt shall fall short of the full amount of the first currency payable and shall not be affected by a judgment being obtained for any other sum due hereunder.

11.16 Conflicts Between This Agreement and the Other Loan Documents. In the event of any conflict between the terms of this Agreement and the terms of any of the other Loan Documents, the terms of this Agreement shall control.

11.17 Limitation on Charges; Substitute Lenders; Non-Discrimination. Anything in Sections 2.2(d), 3.3(c) or 7.9 notwithstanding:

(1) No Borrower shall be required to pay to any Lender reimbursement or indemnification with regard to any costs or expenses described in such Sections, unless such Lender notifies the applicable Borrower of such costs or expenses within 90 days after the date paid or incurred;

(2) none of the Lenders shall be permitted to pass through to any Borrower charges and costs under such Sections on a discriminatory basis (i.e., which are not also passed through by such Lender to other customers of such Lender similarly situated where such customer is subject to documents providing for such pass through); and

(3) if any Lender elects to pass through to any Borrower any material charge or cost under such Sections or elects to terminate the availability of LIBOR Borrowings for any material period of time, the applicable Borrower may, within 60 days after the date of such event and so long as no Default shall have occurred and be continuing, elect to terminate such Lender as a party to this Agreement; provided that, concurrently with such termination such Borrower shall (i) if Agents and each of the other Lenders shall consent, pay that Lender all principal, interest and fees and other amounts owed to such Lender through such date of termination or (ii) have arranged for another financial institution approved by Agents (such approval not to be unreasonably withheld or delayed) as of such date, to become a substitute Lender for all purposes under this Agreement in the manner provided in Section 11.6; provided further that, prior to substitution for any Lender, the applicable Borrower shall have given written notice to Agents of such intention and the Lenders shall have the option, but no obligation, for a period of 60 days after receipt of such notice, to increase their U.S. Commitments, Canadian Commitments or U.K. Commitments, as the case may be, in order to replace the affected Lender in lieu of such substitution.

11.18 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT,

IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

11.19 Confidentiality. Each of the Agents, Chase, RBC, Chase U.K. and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any actual or prospective assignee of or participant in any of its rights or obligations under this Agreement so long as such assignee or participant agrees to be bound by confidentiality provisions substantially similar to this Section or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to any Borrower (or any Subsidiary of a Borrower) so long as such counterparty (and, if applicable, its advisors) agrees to be bound by confidentiality provisions substantially similar to this Section, (g) with the consent of the applicable Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to any Agent, Chase, RBC, Chase U.K. or any Lender on a nonconfidential basis from a source other than a Borrower or a Subsidiary of a Borrower. For the purposes of this Section, "Information" means all information received from a Borrower (or any Subsidiary of a Borrower) relating to such Borrower (or such Subsidiary) or its business, other than any such information that is available to any Agent, Chase, RBC, Chase U.K. or any Lender on a nonconfidential basis prior to such disclosure; provided that, in the case of information received after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

11.20 Amendment and Restatement. This Agreement amends and restates in entirety that certain Loan Agreement dated November 20, 1998 executed by and among National Tank Company, a Delaware corporation, Canadian Borrower, The Chase Manhattan Bank, as U.S. Agent, The Bank of Nova Scotia, as Canadian Agent and certain lenders therein named, as the same may have been amended.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

NATCO GROUP INC,
a Delaware corporation

By: /s/ Michael Mayer

J. Michael Mayer, Senior
Vice President and Chief
Financial Officer

NATCO CANADA, LTD., a corporation
formed under the laws of the
Province of Ontario

By: /s/ Michael Mayer

J. Michael Mayer, Vice President

AXSIA GROUP LIMITED,
a company incorporated in England and
Wales under the Companies Act of
the United Kingdom

By: /s/ Michael Mayer

Name: J. Michael Mayer

Title: Director

Address for Notices:

Brookhollow Central III
2950 North Loop West, Suite 750
Houston, Texas 77092
Attention: Mr. Mike Mayer
Telecopy No.: (713) 683-7841

THE CHASE MANHATTAN BANK, as U.S. Agent,
Issuer of U.S. Letters of Credit and
a U.S. Lender

By: /s/ Mona M. Foch

Mona M. Foch, Senior Vice President

Address for Notices:

U.S. Commitment:

\$10,294,117.65

712 Main Street
Houston, Texas 77002
Attention: Manager, Structured
Finance - Oil Service
Telecopy No.: (713) 216-6710

Canadian Commitment:

\$0

with a copy to:

Ms. Muniram Appanna
The Chase Manhattan Bank
One Chase Manhattan Plaza, 8th Floor
New York, New York 10081
Telecopy No.: (212) 552-5777

U.K. Commitment:

\$0

Term Loans:

\$14,705,882.35

Documentation Agent and a U.S.

WELLS FARGO BANK TEXAS, NATIONAL
ASSOCIATION, as

Lender

By: /s/ Scott Gildea

Name: Scott Gildea

Title: Relationship Manager

Address for Notices:

U.S. Commitment:

\$8,235,294.12

1000 Louisiana, 3rd Floor
Houston, TX 77002
Attention: Mr. Scott Gildea
Telecopy: (713) 739-1087

Canadian Commitment:

\$0

U.K. Commitment:

\$0

Term Loans:

\$11,764,705.88

BANK ONE, NA (MAIN OFFICE CHICAGO,
ILLINOIS), as Syndications Agent and
a U.S. Lender

By: /s/ Karen Shouse

Name: Karen S. Shouse

Title: First Vice President

Address for Notices:

U.S. Commitment:
\$8,235,294.12

910 Travis, 7th Floor
Houston, TX 77002
Attention: Ms. Karen Shouse
Telecopy: (713) 751-6199

Canadian Commitment:
\$0

U.K. Commitment:
\$0

Term Loans:
\$11,764,705.88

CHASE MANHATTAN INTERNATIONAL
LIMITED, as U.K. Agent

By: /s/ Kathlyn Jason

Name: Kathlyn Jason

Title: Vice President

Address for Notices:

U.S. Commitment:

\$0

Trinity Tower
9 Thomas More Street
London, England, UK E1W 1YT
Attention: Loans Agency
Telecopy No.: 00 44 207 777 2360

Canadian Commitment:

\$0

U.K. Commitment:

\$0

Term Loans:

\$0

ROYAL BANK OF CANADA, as
Canadian Agent, Issuer of
Canadian Letters of Credit
and a Canadian Lender

By: /s/ S.G. Tibbatts

Name: S.G. Tibbatts

Title: Senior Manager

Address for Notices:

U.S. Commitment:

\$0

102 Eighth Avenue SW
Calgary, Alberta, Canada T2P 1B3
Attention: Ms. Gerry Mullarkey
Telecopy No.: 403-509-2790

Canadian Commitment:

\$10,000,000

U.K. Commitment:

\$0

Term Loans:

\$0

THE CHASE MANHATTAN BANK,
as Issuer of U.K. Letters of Credit
and a U.K. Lender

By: _____

Name: _____

Title: _____

Address for Notices:

U.S. Commitment:

\$0

712 Main Street
Houston, Texas 77002
Attention: Manager, Structured
Finance -- Oil Service
Telecopy No.: (713) 216-6710

Canadian Commitment:

\$0

with a copy to:

Ms. Muniram Appanna
The Chase Manhattan Bank
One Chase Manhattan Plaza, 8th Floor
New York, New York 10081
Telecopy No.: (212) 552-5777

U.K. Commitment:

\$5,000,000

Term Loans:

\$0

ARAB BANKING CORPORATION B.S.C.

By: /s/ Wahid D. Bugaighis

Name: Wahid D. Bugaighis

Title: First Vice President

Address for Notices:

U.S. Commitment:
\$4,117,647.06

277 Park Avenue 32nd Floor
New York, New York 10172-3299
Attention: Barbara Sanderson
Telecopy No.: 212-583-0921

Canadian Commitment:
\$0

U.K. Commitment:
\$0

Term Loans:
\$5,882,352.94

[INTENTIONALLY LEFT BLANK]

BANKERS TRUST COMPANY

By: /s/ Calli S. Hayes

Name: Calli S. Hayes

Title: Managing Director

Address for Notices:

U.S. Commitment:
\$4,117,647.06

909 Fannin Street, Suite 3000
Houston, Texas 77010
Attention: Mr. David Sisler
Telecopy No.: 713-759-6766

Canadian Commitment:
\$0

U.K. Commitment:
\$0

Term Loans:
\$5,882,352.94

LOCKE, LIDDELL & SAPP LLP
Attorneys & Counselors

3400 Chase Tower
600 Travis Street
Houston, Texas 77002-3095
(713) 226-1200
Fax: (713) 223-3713

Direct Dial: (713) 226-1247
e-mail: bhaas@lockelidell.com

Austin o Dallas
Houston o New Orleans

March 22, 2001

DISTRIBUTION

RE: NATCO Group Inc. -- Syndicated Credit Facility

Ladies and Gentlemen:

With this letter, I am forwarding to each applicable lender their ORIGINAL executed Notes. Also enclosed herewith please find fully executed counterparts of the following documents relating to this facility:

1. Loan Agreement
2. Intercreditor Agreement
3. Borrowing Base Certificate
4. Canadian Security Agreement executed by NATCO Canada
5. US Security Agreements executed by NATCO Group, National Tank Company, NATCO London and Total Engineering Services Team
6. US Contribution Agreement, Canadian Contribution Agreement and UK Contribution Agreement
7. Notice of Entire Agreement
8. US Guaranties executed by National Tank Company, NATCO London and Total Engineering Services Team
9. Canadian Guaranties executed by NATCO Group, National Tank Company, NATCO London and Total Engineering Services Team
10. UK Guaranties executed by NATCO Group, National Tank Company, NATCO London and Total Engineering Services Team
11. US Financing Statements executed by NATCO Group, National Tank Company, NATCO London and Total Engineering Services Team
12. Organizational and authorization documents for NATCO Canada, NATCO Group, National Tank Company, NATCO London and Total Engineering Services Team, Axsia Group Limited, Axsia Limited, Axsia Serck Baker Limited, Axsia Howmar Limited and Richard Mozley Limited
13. Opinion of Borrowers' US counsel and opinions of Borrowers' Canadian counsel

The UK Security Agreements/Guaranties and the Opinion of Borrowers' UK counsel will be distributed in a later package.

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NATCO Group Inc.

Ladies and Gentlemen:

We have audited the consolidated balance sheets of NATCO Group Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the two year period ended December 31, 2000 and 1999 and the nine month period ended December 31, 1998, and have reported thereon under date of February 16, 2001. The aforementioned consolidated financial statements and our audit report thereon included in the Company's annual report on Form 10-K for the year ended December 31, 2000. As stated in Note 15 to those financial statements, the Company changed its method of accounting for the recognition of unrealized gains and losses for its postretirement benefits from immediate recognition of unrealized gains and losses to deferring unrealized gains and losses, and states that 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 post retirement benefit costs. In accordance with your request, we have reviewed and discussed with Company officials the circumstances and business judgment and planning upon which the decision to make this change in the method of accounting was based.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of NATCO Group Inc.'s compliance with the requirements of the Securities and Exchange Commission, we are furnishing this letter.

Based on our review and discussion, with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

(signed) KPMG LLP

Houston, Texas
February 15, 2001
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LIST OF SUBSIDIARIES

National Tank Company

Total Engineering Services Team, Inc.

NATCO Canada, Ltd.

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