MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and accompanying Notes.

RESULTS OF OPERATIONS

The following table indicates new business taken by geographic area for the years ended December 31, 1999, 1998 and 1997:

(In millions)

	1999	1998	1997
NEW BUSINESS TAKEN BY GEOGRAPHIC AREA			
North America	$ 293	$ 276	$ 263
Europe, Africa, Middle East	296	211	191
Asia Pacific	75	108	200
Central and South America	52	166	104
Total	$ 716	$ 761	$ 758

1999 VERSUS 1998

NEW BUSINESS TAKEN/BACKLOG—New business taken during 1999 was $716.5 million compared with a historically high level of $761.0 million in 1998. The level of new business taken was achieved in spite of challenging market conditions for the engineering and construction industry. Included in the 1999 new business taken was an order for a liquefied natural gas ("LNG") expansion project in Nigeria worth in excess of $100 million, one of the Company's largest single project awards in over a decade, and tankage for a crude export terminal in Russia on the Black Sea at the terminus of the Caspian pipeline. Over 59% of the new business taken during 1999 was for contracts awarded outside of North America. During 1999, new business taken increased 40% in the Europe, Africa, Middle East (EAME) area and 6% in North America, but declined 68% in the Central and South America (CSA) area and 31% in the Asia Pacific (AP) area. The CSA decline is a result of returning to a more historic level of new business after the record level of new business achieved in 1998. Backlog at December 31, 1999 was $510.6 million compared with the backlog at December 31, 1998 of $507.8 million.

The Company expects its new business to improve in 2000 due to the following factors: an upturn in capital spending by the petroleum industry, resulting from higher oil prices and the completion of consolidation activity; the large number of significant prospects, especially LNG projects, for which the Company is in active negotiations; improving economic conditions in Asia; and a full year's results from the recent acquisitions of XL Systems and Trusco Tank, as well as the continued development of UltraPure Systems, which serves the high purity piping market. New business could also be impacted positively by any future acquisitions.

REVENUES—Revenues were $674.8 million in 1999 compared with $775.7 million in 1998, reflecting the difficult industry conditions. Revenues in 1999 were lower in all areas except CSA. The increase in revenue in the CSA area resulted from a significant volume of work being put in place following a record level of new business awarded during 1998, including three heavy crude oil projects in Venezuela. Compared with the prior year, 1999 revenues declined primarily due to mechanical work put in place on the Saldanha Steel project in South Africa during 1998.

Revenues in 2000 are expected to improve subsequent to the first quarter, which will be lower than the comparable period in 1999, as significant contract awards taken in late 1999 and early 2000 are put into place, and improving industry fundamentals lift the Company's base business level. The Company's flow of revenue will fluctuate based on the changing mix of projects worldwide. It is expected there will be a shift in the geographic distribution of revenues with an increase in EAME and a decline in CSA based on the current backlog. Revenues are dependent on the level and timing of customer releases of new business awarded to the Company, and on other matters such as project schedules.

GROSS PROFIT—Gross profit increased $4.1 million to $76.4 million in 1999 from $72.3 million in 1998. Gross profit as a percentage of revenues ("gross margin") was 11.3% in 1999 and 9.3% in 1998. Gross profit increased as a result of project cost savings, contract extras and expanded scope. Gross profit also benefited from favorable developments related to outstanding legal exposures. The Company expects gross margin during 2000 to be comparable to that achieved during 1999.

INCOME FROM OPERATIONS—Income from operations increased 11.4% to $29.4 million in 1999, compared with $26.4 million in 1998. The significant turnaround in CSA, driven by increased volume and improved project execution, was a key reason for the increase. Selling and administrative expenses increased to $49.8 million, or 7.4% of revenues, in 1999 compared with $47.0 million, or 6.1% of revenues, in 1998. Most of the increase came in the fourth quarter of 1999 and reflects the cost of stock and performance-based pay, selling expense for pursuing work in new geographies and costs related to the Company's new high-technology businesses. The Company expects higher selling and administrative expenses during 2000 compared with prior years, as the Company continues to pursue work in new geographies and for costs related to the Company's new high-technology businesses.

Interest expense decreased $0.5 million to $3.0 million in 1999 from $3.5 million in 1998. The decrease primarily reflected lower average debt levels. Interest income consisted primarily of interest earned on cash balances at non-U.S. subsidiaries and decreased $0.8 million to $0.8 million in 1999 compared with $1.6 million in 1998. Net interest expense increased $0.3 million to $2.2 million in 1999 compared with $1.9 million in 1998.

The Company recorded income tax expense of $7.6 million in 1999 compared with a $7.3 million income tax expense in 1998. The effective tax rate was 28.0% in 1999 compared with 30.0% in 1998. The lower effective tax rate was the result of higher earnings in countries with lower tax rates.

Net income for 1999 was $18.4 million, or $1.65 per diluted share, an 18% increase, compared with net income of $17.0 million, or $1.40 per diluted share, for 1998.

1998 VERSUS 1997

NEW BUSINESS TAKEN/BACKLOG—New business taken during 1998 increased by $3.0 million to $761.0 million compared with $758.0 million in 1997. The level of new business taken was achieved in spite of difficult market conditions for the engineering and construction industry. Management believes the Company's more deliberate and focused marketing strategy—including the pursuit of prospects in new geographic areas and beyond the Company's traditional scope of work—contributed to the 1998 new business taken results. Included in the 1998 new business taken was an expansion of an order for a large iron plant for Saldanha Steel in South Africa and three heavy crude oil projects in Venezuela. Over 60% of the new business taken during 1998 was for contracts awarded outside of North America. During 1998, new business taken increased 60% in the Central and South America area, 10% in the Europe, Africa, Middle East area and 5% in North America, but declined 46% in the Asia Pacific area as a result of the Asian economic downturn. Backlog at December 31, 1998 was $507.8 million compared with the backlog at December 31, 1997 of $555.0 million.

REVENUES—Revenues increased $102.9 million, or 15.3%, to $775.7 million in 1998 from $672.8 million in 1997. Major projects contributing to revenues in 1998 were the iron plant for Saldanha Steel in South Africa and an ammonia plant expansion and a liquefied natural gas facility in North America. Revenues in 1998 were favorably impacted by a higher volume of work in all geographic areas, except Asia Pacific. The decline in Asia Pacific revenues was more than offset by the Company's ability to expand on its traditional scope of work in other areas.

GROSS PROFIT—Gross profit increased $8.7 million to $72.3 million in 1998 from $63.6 million in 1997. Gross profit as a percentage of revenues was 9.3% in 1998 and 9.5% in 1997. The CSA area had higher than expected costs and disappointing execution results. Excluding the disappointing results in the CSA area, gross margin in 1998 would have been 11.0% of revenues, which was consistent with unearned gross margin in the Company's December 31, 1998 backlog.

INCOME FROM OPERATIONS—Income from operations increased 12.4% to $26.4 million in 1998, compared with $23.5 million in 1997, excluding the one-time, non-cash Management Plan charge (Note 9). This increase in operating income was the result of a more than threefold increase in North America and a 50% increase in EAME. These accomplishments were partially offset by the operating loss in CSA. Including the one-time, non-cash Management Plan charge, the Company reported operating income of $6.8 million in 1997. Selling and administrative expenses were $47.0 million or 6.1% of revenues in 1998 compared with $45.0 million or 6.7% of revenues in 1997.

Interest expense decreased $0.4 million to $3.5 million in 1998 from $3.9 million in 1997. The decrease primarily reflected lower interest expense on corporate revolving debt, partially offset by higher costs for short-term borrowing outside of the United States. Interest income consisted primarily of interest earned on cash balances at non-U.S. subsidiaries and increased $0.2 million to $1.6 million in 1998 compared with $1.4 million in 1997. Net interest expense decreased $0.6 million to $1.9 million in 1998 compared with $2.5 million in 1997.

The Company recorded income tax expense of $7.3 million in 1998 compared with a $0.7 million income tax benefit in 1997. The lower income tax expense for 1997 was mostly due to a $6.6 million income tax benefit attributable to the Management Plan charge. Excluding the Management Plan charge, income tax expense would have been $5.9 million in 1997, or an effective tax rate of 28.0% in 1997 compared with 30.0% in 1998. Compared with the prior year, income tax expense increased due to the higher effective tax rate that resulted from reduced project profitability in lower tax rate jurisdictions.

Net income for 1998 was $17.0 million, or $1.40 per diluted share, compared with net income of $15.5 million, or $1.24 per diluted share for 1997, excluding the Management Plan charge. Including the one-time, non-cash Management Plan charge in 1997, the Company reported net income of $5.4 million or $0.43 per diluted share.

LIQUIDITY AND CAPITAL RESOURCES

In 1999, the Company generated cash from operations of $22.5 million compared with $50.8 million in 1998. A significant contributor to positive operating cash flow in 1998 was an $18.3 million reduction in contract capital. In 1999, contract capital increased by $1.9 million; however, the Company reduced contract capital by $25.4 million during the fourth quarter of 1999 and continues to focus on improving cash flow from operations by reducing contract capital.

In 1999, the Company expended $13.5 million for capital expenditures and realized $4.5 million in proceeds from the sale of field equipment and an excess warehouse facility. The capital expenditures in 1999 included $5.9 million for information systems, $4.8 million for field equipment, and $2.8 million for the expansion and improvement of facilities. In 1998, the Company expended $12.2 million for capital expenditures and realized $10.1 million in proceeds from the sale of an excess manufacturing facility and field equipment. The capital expenditures in 1998 included $5.9 million for field equipment, $3.9 million for information systems, and $2.4 million for the expansion and improvement of facilities. The Company anticipates that capital expenditures in the near future will be lower than the level of depreciation and amortization, although there can be no assurance that such levels will not increase.

On September 30, 1999, the Company and a group of five banks entered into a three-year, unsecured $100 million revolving credit facility (the "Revolving Credit Facility"), effective October 1, 1999. The Revolving Credit Facility replaced the Company's prior existing competitive advance and revolving credit facility, which was terminated by the Company effective October 1, 1999. Under the new Revolving Credit Facility, committed amounts are available for general corporate purposes, including working capital, letters of credit, share repurchase, acquisitions and other requirements of the Company. Letters of credit may be issued, subject to a $50 million sublimit, on either a committed or a competitive bid basis and expire one year after issuance, unless otherwise provided. The Revolving Credit Facility will terminate on September 30, 2002.

During 1999, the Company repurchased 1,354,000 shares, or 11% of common shares outstanding as of year-end 1998, for $17.5 million. As a result of repurchasing these shares, the Company returned to a more normal debt level, ending the year with $25.0 million in long-term debt, up from $5.0 million at the end of 1998. During 1998, the Company made significant progress in reducing long-term debt, ending the year with $5.0 million in long-term debt, which was lower than the Company's expected normal debt level, down from $44.0 million at the end of 1997. This reduction in long-term debt was achieved even as the Company repurchased $14.0 million of its common stock during 1998. The Company ended 1999 with contract capital of $78.9 million, a $1.9 million increase from December 31, 1998. Cash and cash equivalents at year-end were $18.4 million compared with $5.6 million at the end of 1998. During the first two months of 2000, the Company has repurchased 968,000 additional shares for $15.3 million.

In addition to liquidity generated through the Revolving Credit Facility, the Company intends to continue to improve its contract capital position through aggressive management of its individual components, including programs to reduce accounts receivable, to manage contracts in progress and to maximize available terms from trade suppliers.

Management anticipates that by utilizing cash generated from operations and funds provided under the Revolving Credit Facility, the Company will be able to meet its contract capital and capital expenditure needs for at least the next 24 months.

As part of its strategy to create step-change growth in sustainable revenues, the Company intends to pursue acquisition opportunities. The financing of these transactions may come from cash, the issuance of securities or additional borrowing arrangements.

As previously reported, the Company continues to be impacted by the Tuban Project, a $2.5 billion petrochemical project in Tuban, West Java, Indonesia, where work remains suspended. At December 31, 1999, the Company's backlog related to this project was approximately $50 million. Similar to other major contractors involved in the project, the Company has received approval to redeploy certain material purchased for this project in order to reduce its costs. While the Company believes the Tuban Project remains viable, the $28.7 million outstanding net receivable has been recorded as a non-current asset in recognition of the continued suspension of this project. The Company believes work on the Tuban Project ultimately will resume, but no assurances can be given that this will happen, or even though the project resumes, that it will not have an adverse impact on the Company.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risk from changes in foreign currency exchange rates which may adversely affect its results of operations and financial condition. The Company seeks to minimize the risks from these foreign currency exchange rate fluctuations through its regular operating and financing activities and, when deemed appropriate, through its limited use of foreign currency forward contracts. The Company's exposure to changes in foreign currency exchange rates arises from receivables, payables and firm commitments from international transactions, as well as intercompany loans utilized to finance non-U.S. subsidiaries. The Company does not use financial instruments for trading or other speculative purposes.

The Company uses various methods and assumptions to estimate the fair value of each class of financial instrument. Due to their nature, the carrying value of cash and cash equivalents, trade and accounts receivable, payables, notes payable and long-term debt approximates fair value. The Company's accounting policies and a quantification of its derivative financial instruments are included in Note 2 (Significant Accounting Policies) of the Notes to Consolidated Financial Statements.

EURO CONVERSION

The Euro was introduced on January 1, 1999, at which time the conversion rates between the currencies of the 11 participating European countries that are members of the European Economic and Monetary Union (EMU) and the Euro were set. The local currencies will continue to be used as legal tender through January 1, 2002. Thereafter, the local currencies will be canceled and Euro bills and coins will be used in the 11 participating countries. The Company does not anticipate that the transition to the Euro will have a significant impact on its results of operations, financial position or cash flows.

YEAR 2000 COMPLIANCE

The Company's worldwide businesses experienced a smooth and successful transition into the Year 2000. No significant problems have been encountered and the Company's business functions were not adversely impacted. The Company believes its thorough assessment and remediation efforts were a major factor in reducing the number of incidents to a few minor incidents, which were immediately resolved. The Company continues to remain alert to potential Year 2000-related problems. Any additional efforts to be expended on this matter are not anticipated to be significant.

The Company has implemented the J.D. Edwards information system (an enterprise resource planning system). Although the decision to implement this new information system was made independently of the Company's Year 2000-readiness effort, a portion of the system enabled the Company to meet part of its Year 2000-readiness needs. Over the next several years the Company plans to continue to integrate its other software systems into J.D. Edwards in order to further utilize the system's capabilities.

The Company identified key material suppliers and service providers ("suppliers") and communicated with these suppliers regarding their state of readiness on Year 2000 issues. The Company has not experienced any business disruptions as a result of any failure of suppliers to remediate their own Year 2000 issues.

The Company completed its assessment and remediation of Year 2000 issues at a cost of $1.9 million ($1.8 million expense and $0.1 million capitalized for the accelerated purchase of desktop hardware and other equipment). The Company anticipates no further significant costs related to Year 2000 issues. The cost estimate excludes the direct costs of the J.D. Edwards implementation, which have been capitalized.

Not all Year 2000 issues were expected to surface in January 2000. However, based upon assurances received from suppliers and the Company's review of pertinent business systems and documentation, the Company believes that its major business systems will not suffer any material disruption resulting from such Year 2000 issues which would impair the Company's ability to deliver products and services. While the Company believes all of such Year 2000 issues have been anticipated and corrected, there can be no assurance that the Company will not suffer a business interruption caused by such Year 2000 issue.

Because of the uncertainties the Company faced with regard to Year 2000 issues, it developed contingency plans to address identified potential risks and to provide for continuation of its critical operations in spite of possible Year 2000 disruptions. These contingency plans remain available for the Company's specific global locations and were customized to address the severity levels of Year 2000 issues that may be encountered and include strategic use of some alternate sources of electrical power and communications equipment for specific areas to help minimize a potential business interruption.

FORWARD-LOOKING STATEMENTS

This discussion and analysis contains certain forward-looking statements that involve a number of risks and uncertainties. Actual events or results may differ materially from the Company's expectations. In addition to matters described herein, the uncertain timing of awards and contracts, project cancellation risks, operating risks, risks associated with fixed price contracts, risks associated with percentage of completion accounting, fluctuating revenues and cash flow, dependence on the petroleum and petrochemical industries, competitive conditions, the Tuban project, Year 2000 issues, as well as risk factors detailed from time to time in the Company's reports filed with the Securities and Exchange Commission (including, but not limited to its Registration Statement on Form S-1 [File No.333-18065], as amended), may affect the actual results achieved by the Company. The Company does not undertake to update any forward-looking statement contained herein or that may be made from time to time by or on behalf of the Company.