GABELLI UTILITY TRUST
Form N-2/A
October 14, 2004

As filed with the Securities and Exchange Commission on October 14, 2004

Securities Act File No. 333-118701

Investment Company Act File No. 811-09243

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2

[ ] Registration Statement under the Securities Act of 1933
[X] Pre-Effective Amendment No. 1
[ ] Post-Effective Amendment No.
and/or
[X] Registration Statement under the Investment Company Act of 1940 Amendment No. 11

(Check Appropriate Box or Boxes)

THE GABELLI UTILITY TRUST
(Exact Name of Registrant as Specified in Charter)
One Corporate Center
Rye, New York 10580-1434
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code:
(800) 422-3554

Bruce N. Alpert
The Gabelli Utility Trust
One Corporate Center
Rye, New York 10580-1434
(914) 921-5100
(Name and Address of Agent for Service)

Copies to:

James E. McKee, Esq.	Richard T. Prins, Esq.
The Gabelli Utility Trust	Skadden, Arps, Slate, Meagher & Flom LLP
One Corporate Center	Four Times Square
Rye, New York 10580	New York, New York 10036

Approximate date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. [X]

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Aggregate Amount Being Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (2)
Shares of Common beneficial interest	7,500,000	9.89	74,175,000	$9398.00

(1) As calculated pursuant to Rule 457(c) under the Securities Act of 1933, as amended. Based on the average of the high and low sales prices reported on the New York Stock Exchange on October 12, 2004.

(2) $123.66 previously paid.

ii

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

Notice to Canadian Residents:

These Securities Have Not Been Approved or Disapproved by any Securities or Regulatory Authority in Canada. This Offering Will Not Be Made in any Province of Canada Where it is Not Permitted by Law.

iii

CROSS-REFERENCE SHEET
PURSUANT TO RULE 481(a)

PART A

PART B

PART C

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Registration Statement.

___________ RIGHTS FOR ___________ SHARES

THE GABELLI
UTILITY TRUST
COMMON SHARES

The Gabelli Utility Trust (the "Fund") is issuing transferable rights ("Rights") to its shareholders of common shares of beneficial interest, par value $.001 per share (the "Common Shares"). These Rights will allow you to subscribe for new Common Shares of the Fund. For every four Rights that you receive, you may buy one new Common Share of the Fund plus, in certain circumstances and only if you are a shareholder on the record date for the rights offering, additional Common Shares pursuant to an over-subscription privilege. You will receive one Right for each outstanding Common Share of the Fund you own on October __, 2004 (the "Record Date") rounded up to the nearest number of Rights evenly divisible by four. Fractional shares will not be issued upon the exercise of the Rights. Accordingly, new Common Shares may be purchased only pursuant to the exercise of Rights in integral multiples of four.

The Rights are transferable and will be admitted for trading on the New York Stock Exchange ("NYSE") under the symbol "GUT RT." The Common Shares are presently listed on the NYSE under the symbol "GUT." The new Common Shares issued in this Rights offering (the "Offer") will also be listed under the symbol "GUT." On October __, 2004 (the last trading date prior to the Common Shares trading ex-Rights), the last reported net asset value per share of the Common Shares was $____ and the last reported sales price per Common Share on the NYSE was $____. The purchase price per Common Share (the "Subscription Price") will be $____. The offer will expire at 5:00 p.m., New York Time, on November __, 2004, unless the Offer is extended as described in this Prospectus (the "Expiration Date"). Rights acquired in the secondary market may not participate in the oversubscription privilege.

The Fund is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940 (the "1940 Act"). The Fund's primary investment objectives are long-term growth of capital and income, which the Fund attempts to achieve by investing at least 80% of its total assets in common stock and other securities of foreign and domestic companies involved to a substantial extent (e.g., at least 50% of the assets, gross income or profits of such company is committed to or derived from) in providing products, services or equipment for (i) the generation or distribution of electricity, gas and water or (ii) telecommunications services or infrastructure operations, such as airports, toll roads and municipal services. Gabelli Funds, LLC (the "Investment Adviser") serves as investment adviser to the Fund. An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's investment objective will be achieved. FOR A DISCUSSION OF CERTAIN RISK FACTORS AND SPECIAL CONSIDERATIONS WITH RESPECT TO OWNING COMMON SHARES OF THE FUND, SEE "RISK FACTORS AND SPECIAL CONSIDERATIONS" ON PAGE __ OF THIS PROSPECTUS. The address of the Fund is One Corporate Center, Rye, New York 10580-1422 and its telephone number is (914) 921-5070.

This Prospectus sets forth certain information about the Fund an investor should know before investing. Accordingly, this Prospectus should be retained for future reference.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIME.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY ANY SECURITIES REGULATORY AUTHORITY IN CANADA. THIS OFFERING WILL NOT BE MADE IN ANY PROVINCE OF CANADA WHERE IT IS NOT PERMITTED BY LAW.

	SUBSCRIPTION	PROCEEDS

	PRICE	SALES LOAD	TO FUND(1)
Per Common Share...........	$ _____	None	$______
Total......................	$_________	None	$__________ (2)

(1) Before deduction of expenses incurred by the Fund, estimated at $_____.

(2) _________ shares representing $_______ of the proceeds can only be issued if the Common Shares on the Expiration Date are trading at or above their per share net asset value. In the event the Common Shares on the Expiration Date are not trading at or above their per share net asset value, then the maximum proceeds to the Fund will be $________.

SHAREHOLDERS WHO DO NOT EXERCISE THEIR RIGHTS MAY, AT THE COMPLETION OF THE OFFER, OWN A SMALLER PROPORTIONAL INTEREST IN THE FUND THAN IF THEY EXERCISED THEIR RIGHTS. AS A RESULT OF THE OFFER YOU MAY EXPERIENCE DILUTION OR ACCRETION OF THE AGGREGATE NET ASSET VALUE OF YOUR SHARES DEPENDING UPON WHETHER THE FUND'S NET ASSET VALUE PER SHARE IS ABOVE OR BELOW THE SUBSCRIPTION PRICE ON THE EXPIRATION DATE. The Fund cannot state precisely the extent of any dilution or accretion at this time because the Fund does not know what the net asset value per Common Share will be when the Offer expires or what proportion of the Rights will be exercised. The Investment Adviser's parent company, Gabelli Asset Management Inc. and its affiliates ("Affiliated Parties") may purchase shares through the primary subscription and the over-subscription privilege and Mr. Mario J. Gabelli, who may be deemed to control the Fund's investment adviser, or his affiliated entities may also purchase additional shares through the primary subscription and over-subscription privilege on the same terms as other shareholders.

This Prospectus sets forth concisely certain information about the Fund that a prospective investor should know before investing. Investors are advised to read and retain it for future reference.

A Statement of Additional Information dated October __, 2004 (the "SAI") containing additional information about the Fund has been filed with the SEC and is incorporated by reference in its entirety into this Prospectus. A copy of the SAI, the table of contents of which appears on page __ of this Prospectus, may be obtained without charge by contacting the Fund at (800) GABELLI, (800) 422-3554 or (914) 921-5070. The SAI will be sent within two Business Days (defined below) of receipt of a request. Investors may also obtain the Statement of Additional Information, material incorporated by reference, and other information about the Fund from the SEC's website (http://www.sec.gov). Shareholder inquiries should be directed to the Subscription Agent, EquiServe, at (800) 336-6983 or (781) 575-2000.

October __, 2004

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FUND OR THE FUND'S INVESTMENT ADVISER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY OTHER THAN THE COMMON SHARES OFFERED BY THIS PROSPECTUS, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY COMMON SHARES BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION

WOULD BE UNLAWFUL.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

This summary highlights some information that is described more fully elsewhere in this Prospectus. It may not contain all of the information that is important to you. To understand the Offer fully, you should read the entire document carefully, including the risk factors which can be found on page __, under the heading "Risk Factors and Special Considerations."

PURPOSE OF THE OFFER

The Board of Trustees of the Fund has determined that it would be in the best interests of the Fund and its existing shareholders to increase the assets of the Fund so that the Fund may be in a better position to take advantage of investment opportunities that may arise. The Offer seeks to reward existing shareholders by giving them the opportunity to purchase additional shares at a price that may be below market and/or net asset value without incurring any commission or charge. The distribution of the Rights, which themselves may have intrinsic value, will also give non-participating shareholders the potential of receiving a cash payment upon the sale of their Rights, which may be viewed as partial compensation for the possible dilution of their interests in the Fund as a result of the Offer.

The Board of Trustees believes that increasing the size of the Fund may lower the Fund's expenses as a proportion of average net assets because the Fund's fixed costs can be spread over a larger asset base. There can be no assurance that by increasing the size of the Fund, the Fund's expense ratio will be lowered. The Board of Trustees also believes that a larger number of outstanding shares and a larger number of beneficial owners of shares could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Fund's shares on the NYSE.

IMPORTANT TERMS OF THE OFFER

Total number of shares available for primary subscription................................_______
Number of Rights you will receive for each outstanding
share you own on the Record Date................................One Right for every one sha
Number of shares you may purchase with your Rights
at the Subscription Price per share.........................One share for every four Rights
Subscription Price..$__

* The number of Rights to be issued to a shareholder on the Record Date will be rounded up to the nearest number of Rights evenly divisible by four.

** Holders of Rights on the Record Date will be able to acquire additional Fund shares pursuant to an over-subscription privilege in certain circumstances.

Shareholder inquiries should be directed to:
EquiServe
(800) 336-6983 or (781)
575-2000
or Gabelli
(800) GABELLI (422-3554)

OVER-SUBSCRIPTION PRIVILEGE

Shareholders on the Record Date ("Record Date Shareholders") who fully exercise all Rights initially issued to them are entitled to buy those Fund shares, referred to as "primary over-subscription shares," that were not purchased by other Rights holders. If enough primary over-subscription shares are available, all such requests will be honored in full. If the requests for primary over-subscription shares exceed the primary over-subscription shares available, the available primary over-subscription shares will be allocated pro rata among those fully exercising Record Date Shareholders who over-subscribe based on the number of Rights originally issued to them by the Fund. Shares acquired pursuant to the over-subscription privilege are subject to allotment, which is more fully discussed

1

under "The Offer -- Over-Subscription Privilege." RIGHTS ACQUIRED IN THE SECONDARY MARKET MAY NOT PARTICIPATE IN THE OVERSUBSCRIPTION PRIVILEGE.

In addition, in the event that the Fund's per share net asset value on the Expiration Date is equal to or less than the Subscription Price, the Fund, in its sole discretion, may determine to issue up to ________ additional Common Shares, referred to as "secondary over-subscription shares," to satisfy over-subscription requests in excess of the new Fund shares available for primary subscription. The Fund, in its sole discretion, would also be able to issue additional Common Shares in an amount of up to 20% of the sum of shares issued pursuant to the primary subscription and secondary over-subscription. Any such new Common Shares will be allocated and issued in conjunction with the secondary over- subscription shares to Record Date Shareholders who are eligible to receive secondary over-subscription shares. Should the Fund determine to issue some or all of the secondary over-subscription shares, they will be allocated only among Record Date Shareholders who submitted over-subscription requests. Secondary over-subscription shares will be allocated pro rata among those fully exercising Record Date Shareholders who over-subscribe based on the number of Rights originally issued to them by the Fund. RIGHTS ACQUIRED IN THE SECONDARY MARKET MAY NOT PARTICIPATE IN THE OVERSUBSCRIPTION PRIVILEGE.

Fund shares acquired pursuant to the over-subscription privilege are subject to allotment, which is more fully discussed under "The Offer -- Over-Subscription Privilege."

METHOD FOR EXERCISING RIGHTS

Except as described below, subscription certificates evidencing the Rights ("Subscription Certificates") will be sent to Record Date Shareholders or their nominees. If you wish to exercise your Rights, you may do so in the following ways:

(1) Complete and sign the Subscription Certificate. Mail it in the envelope provided or deliver it, together with payment in full to EquiServe (the "Subscription Agent") at the address indicated on the Subscription Certificate. Your completed and signed Subscription Certificate and payment must be received by the Expiration Date.

(2) Contact your broker, banker or trust company, which can arrange, on your behalf to deliver your payment and to guarantee delivery of a properly completed and executed Subscription Certificate by the close of business on the third Business Day after the Expiration Date pursuant to a notice of guaranteed delivery. A fee may be charged for this service by your broker, bank or trust company. Your payment once the notice of guaranteed delivery must be received by the Expiration Date.

Rights holders will have no right to rescind a purchase after the Subscription Agent has received payment. See "The Offer -- Method of Exercise of Rights" and "The Offer -- Payment for Shares."

SALE OF RIGHTS

The Rights are transferable until the Expiration Date and have been admitted for trading on the NYSE. Although no assurance can be given that a market for the Rights will develop, trading in the Rights on the NYSE will begin three Business Days prior to the Record Date and may be conducted until the close of trading on the last NYSE trading day prior to the Expiration Date. The value of the Rights, if any, will be reflected by the market price. Rights may be sold by individual holders or may be submitted to the Subscription Agent for sale. Any Rights submitted to the Subscription Agent for sale must be received by the Subscription Agent on or before November __, 2004, one Business Day prior to the Expiration Date, due to normal settlement procedures. Rights that are sold will not confer any right to acquire any Common Shares in the primary or secondary oversubscription, and any Record Date shareholder who sells any Rights will not be eligible to participate in the primary or secondary over-subscription. Trading of the Rights on the NYSE will be conducted on a when-issued basis until and including the date on which the Subscription Certificates are mailed to Record Date shareholders and thereafter will be conducted on a regular-way basis until and including the last NYSE trading day prior to the Expiration Date. The shares will begin trading ex-Rights two Business Days prior to the Record Date. If the Subscription Agent receives Rights for sale in a timely manner, it will use its best efforts to sell the Rights on the NYSE. The Subscription Agent will also

attempt to sell any Rights (i) a Rights holder is unable to exercise because the Rights represent the right to subscribe for less than one new Share (defined herein) or (ii) attributable to shareholders whose record addresses are outside the United States and Canada or who have an APO or FPO address as described below under "Restrictions on Foreign Shareholders" and under "Foreign Restrictions" in the prospectus. Any commissions will be paid by the selling Rights holders. Neither the Fund nor the Subscription Agent will be responsible if Rights cannot be sold and neither has guaranteed any minimum sales price for the Rights. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the weighted average price received by the Subscription Agent on the day such Rights are sold, less any applicable brokerage commissions, taxes and other expenses. For purposes of this Prospectus, a "Business Day" shall mean any day on which trading is conducted on the NYSE.

Shareholders are urged to obtain a recent trading price for the Rights on the New York Stock Exchange from their broker, bank, financial advisor or the financial press.

Banks, broker-dealers and trust companies that hold Common Shares for the accounts of others are advised to notify those persons that purchase Rights in the secondary market that such Rights may not participate in the over-subscription privilege.

OFFERING FEES AND EXPENSES

Offering expenses incurred by the Fund are estimated to be $_______.

RESTRICTIONS ON FOREIGN SHAREHOLDERS

Subscription Certificates will only be mailed to shareholders whose record addresses are within the United States and Canada (other than an APO or FPO address). Shareholders whose addresses are outside the United States and Canada or who have an APO or FPO address and who wish to subscribe to the Offer either in part or in full should contact the Subscription Agent, EquiServe, by written instruction or recorded telephone conversation no later than three Business Days prior to the Expiration Date. The Fund will determine whether the offering may be made to any such shareholder. This offering will not be made in any jurisdiction where it would be unlawful to do so. If the Subscription Agent has received no instruction by the third Business Day prior to the Expiration Date or the Fund has determined that the offering may not be made to a particular shareholder, the Subscription Agent will attempt to sell all of such shareholder's Rights and remit the net proceeds, if any, to such shareholder. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the weighted average price received by the Subscription Agent on the day the Rights are sold, less any applicable brokerage commissions, taxes and other expenses.

USE OF PROCEEDS

The Fund estimates the net proceeds of the Offer to be approximately $___________. This figure is based on the Subscription Price per share of $____ and assumes all new Common Shares offered are sold and that the expenses related to the Offer estimated at approximately $_________ are paid.

The Investment Adviser anticipates that investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed in approximately three months; however, the identification of appropriate investment opportunities pursuant to the Investment Adviser's investment style or changes in market conditions may cause the investment period to extend as long as six months. Pending such investment, the proceeds will be held in high quality short-term debt securities and instruments.

IMPORTANT DATES TO REMEMBER

Please note that the dates in the table below may change if the Offer is extended.

EVENT	DATE
Record Date...	October __, 2004
Subscription Period...................................	October.__,.2004.through November __, 2004**
Expiration of the Offer*..............................	November __, 2004**
Guarantees of Delivery Due*...........................	November __, 2004**
Confirmation to Participants..........................	December __, 2004**

* A shareholder exercising Rights must deliver by 5:00 New York time on November __, 2004 either (a) a Subscription Certificate and payment for Shares or (b) a notice of guaranteed delivery and payment for Shares.

** Unless the offer is extended to a date no later than December __, 2004.

INFORMATION REGARDING THE FUND

The Fund is a closed-end non-diversified management investment company organized under the laws of the State of Delaware on February 25, 1999. The Fund's primary investment objective is long-term growth of capital and income, which the Fund attempts to achieve by investing at least 80% of its total assets in common stock and other securities of foreign and domestic companies involved to a substantial extent in providing (i) products, services or equipment for the generation or distribution of electricity, gas and water or (ii) telecommunications services or infrastructure operations, such as airports, toll roads and municipal services (collectively, the "Utility Industry"). No assurance can be given that the Fund's investment objectives will be achieved. See "Investment Objectives and Policies." The Fund's outstanding Common Shares are listed and traded on the New York Stock Exchange (the "NYSE"). The average weekly trading volume of the Fund's Common Shares on the NYSE during the period from January 1, 2003 through December 31, 2003 was _______ shares. The Fund has outstanding 1,184,200 shares of 5.625% Series A Cumulative Preferred Shares, liquidation preference $25 per share (the "Series A Preferred Shares") and 1,000 shares of Series B Auction Rate Preferred Shares, liquidation preference $25,000 per share (the "Series B Preferred Shares"). As of September 30, 2004, the net assets of the Fund were approximately $210,251,818.75.

INFORMATION REGARDING THE INVESTMENT ADVISER

The Investment Adviser has served as the investment adviser to the Fund since its inception. The Investment Adviser also provides certain administrative services to the Fund. The Investment Adviser and its affiliates have been engaged in the business of providing investment advisory and portfolio management services for over 25 years and as of September 30, 2004, managed total assets of approximately $______ billion. The Fund pays the Investment Adviser a monthly fee at the annual rate of 1.00% of the Fund's average weekly net assets (which for this purpose includes the liquidation preference of the Fund's outstanding preferred shares). The Investment Adviser's fee is subject to a voluntary fee waiver under certain circumstances. See "Management of the Fund -- Investment Adviser." Since the Investment Adviser's fees are based on the net assets of the Fund, the Investment Adviser will benefit from the Offer. In addition, three Trustees who are "interested persons" of the Fund could benefit indirectly from the Offer because of their interests in the Investment Adviser. See "The Offer -- Purpose of the Offer."

RISKS

The following summarizes some of the matters that you should consider before investing in the Fund through the Offer.

Dilution...........................	Shareholders who do not exercise their Rights may, at the completion of the Offer, own a smaller proportional interest in the Fund than if they exercise their Rights. As a result of the Offer you may experience dilution in net asset value per share if the Subscription Price per share is below the net asset value per share on the Expiration Date. If the Subscription Price per share is below the Fund's net asset value per share of the Fund's shares on the Expiration Date, you will experience an immediate dilution of the

aggregate net asset value of your shares if you do not participate in the Offer and you will experience a reduction in the net asset value per share of your shares whether or not you participate in the Offer. The Fund cannot state precisely the extent of this dilution (if any) if you do not exercise your Rights because the Fund does not know what the net asset value per share will be when the Offer expires or what proportion of the Rights will be exercised. Assuming, for example that all Rights are exercised, the Subscription Price per share is $______ and the Fund's net asset value per share at the expiration of the Offer increases to $_____, the Fund's net asset value per share (after payment of estimated offering expenses) would be reduced by approximately $_____ (_____%) per share. See "Risk Factors and Special Considerations -- Dilution." If you do not wish to exercise your Rights, you should consider selling them as set forth in this Prospectus. The Fund cannot give any assurance, however, that a market for the Rights will develop or that the Rights will have any marketable value.

Leveraging.........................

As provided in the 1940 Act and subject to certain exceptions, the Fund may issue debt or preferred shares (such as the outstanding Series A Preferred Shares and Series B Preferred Shares) so long as the Fund's total assets immediately after such issuance, less certain ordinary course liabilities, exceed 300% of the amount of the debt outstanding and exceed 200% of the sum of the amount of preferred shares and debt outstanding. Such debt or preferred shares may be convertible in accordance with SEC staff guidelines which may permit the Fund to obtain leverage at more attractive rates. Use of leverage may magnify the impact on the holders of Common Shares of changes in net asset value and the cost of leverage may exceed the return on the securities acquired with the proceeds of leverage, thereby diminishing rather than enhancing the return to such shareholders and generally making the

Fund's total return to such shareholders more volatile. In addition, the Fund may be required to sell investments in order to meet dividend or interest payments on the debt or preferred shares when it may be disadvantageous to do so. Leveraging through the issuance of preferred shares requires that the holders of the preferred shares have class voting rights on various matters that could make it more difficult for the holders of the Common Shares to change the investment objectives or fundamental policies of the Fund, to convert it to an open-end fund or make certain other changes. See "Risks."

Market Loss........................ Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares, although for most of the Fund's life its shares have traded at a premium over net asset value per share. The possibility that shares of the Fund will trade at a discount from net asset value or at premiums that are unsustainable over the long term are risks separate and distinct from the risk that the Fund's net asset value will decrease. The risk of purchasing shares of a closed-end fund that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. See "Risks" --Market Value and Net Asset Value.

Trading Premium.................... Historically, the Fund's Common Shares have traded at a premium to their net asset value per share. As of October ___, 2004, this premium was ___%. There is no guarantee that this premium is sustainable either during the term of the Offer or the long term. The issuance of additional

Common Shares pursuant to the Offer

and the related over-subscription and secondary over- subscription privileges may reduce or eliminate any premium that common shareholders may have otherwise received for their Common Shares.

Share Repurchases..................	You will be free to sell your shares on the NYSE or other markets on which the shares may trade, but, because the Fund is a closed- end fund, you do not have the right to redeem your Common Shares. The Fund is authorized to repurchase its shares on the open market when the Common Shares are trading at a discount of 10% or more from net asset value. Such repurchases are subject to the Fund maintaining asset coverage on its preferred shares and to certain notice and other requirements. There is no assurance that any action undertaken to repurchase Common Shares will result in the shares trading at a price which approximates their net asset value. Share repurchases by the Fund would decrease the capital of the Fund and could have the effect of increasing the Fund's expense ratio.
Anti-takeover Provisions...........	Certain provisions of the Fund's Declaration of Trust may be regarded as "anti-takeover" provisions. Pursuant to these provisions only one of the three classes of trustees is elected each year, and the affirmative vote of the holders of 75% of the outstanding voting shares of the Fund (together with a separate class vote by the holders of any preferred shares outstanding) is necessary to authorize amendments to the Fund's Declaration of Trust that would be necessary to convert the Fund from a closed-end to an open-end investment company. In addition, the affirmative vote of the holders of 80% of the outstanding voting shares of each class of the Fund, voting as a class, is generally required to authorize certain business transactions with the beneficial owner of more than 5% of the outstanding shares of the Fund. In addition, the holders of the preferred shares have the authority to elect two trustees at all times and would have separate class voting rights on specified matters including conversion of the Fund to open-end

status and certain reorganizations of the Fund. The overall effect of these provisions is to render more difficult the accomplishment of a merger with, or the assumption of control by, a principal shareholder, or the conversion of the Fund to open-end status. These provisions may have the effect of depriving Fund shareholders of an opportunity to sell their shares at a premium above the prevailing market price. See "Anti-Takeover Provisions of the Declaration of Trust and By-laws."

Non-Diversified Status..............	As a non-diversified investment company under the 1940 Act, the Fund is not limited in the proportion of its assets that may be invested in securities of a single issuer. As a result of investing a greater portion of its assets in the securities of a smaller number of issuers, the Fund may be more vulnerable to events affecting a single issuer and therefore subject to greater volatility than a fund that is more broadly diversified. Accordingly, an investment in the Fund may, under some circumstances, present greater risk to an investor than an investment in a diversified company. See "Risks-- Non-Diversified Status."
Foreign Securities..................	There is no limitation on the amount of foreign securities in which the Fund may invest. Investing in securities of foreign companies and foreign governments, which generally are denominated in foreign currencies, may involve certain risk and opportunity considerations not typically associated with investing in domestic companies and could cause the Fund to be affected favorably or unfavorably by changes in currency exchange rates and revaluations of currencies. See "Investment Objectives and Policies" and "Risks."

Industry Risks......................	Under normal market conditions, the Fund will invest 80% or more of its total assets in companies in the Utility Industry and, as a result, the value of the Fund's shares will be more susceptible to factors affecting those particular types of

companies, including governmental regulation, deregulation, inflationary and other cost increases in fuel and other operating expenses, technological innovations that may render existing products and equipment obsolete and increases in interest rates resulting in higher interest costs on borrowings needed for capital construction programs, including costs associated with compliance with environmental and other regulations. As a consequence of its concentration policy, the Fund's investments may be subject to greater risk and market fluctuation than a fund that has securities representing a broader range of alternatives. See "Investment Objectives and Policies" and "Risks."

Lower Rated Securities.............	The Fund may invest up to 25% of its total assets in fixed-income securities rated in the lower rating categories of recognized statistical rating agencies, such as securities rated "CCC" or lower by S&P or "Caa" or lower by Moody's, Inc., or non-rated securities of comparable quality. These debt securities are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities rated lower than "BBB" by S&P or "Baa" by Moody's are often referred to in the financial press as "junk bonds." See "Risks."
Key Personnel Dependence...........	The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund's investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser.
Taxation...........................	The Fund intends to continue to be treated and qualify as a regulated investment company, for U.S. federal income tax purposes. Such qualification requires, among other things, compliance by the Fund with certain distribution requirements. The Fund is also, however, subject to

certain statutory limitations on distributions on its Common Shares if the Fund fails to satisfy the 1940 Act's asset coverage requirements which could jeopardize the Fund's ability to meet the regulated investment company distribution requirements. See "Taxation" for a more complete discussion.

7

TABLE OF FEES AND EXPENSES

SHAREHOLDER TRANSACTION EXPENSES	
Voluntary Cash Purchase Plan Purchase Fees	$0.75 (1)
Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan Sales Fees	$2.50 (1)
ANNUAL OPERATING EXPENSES (as a percentage of net assets attributable to Common Shares)	
Management Fees	1.21% (2)
Other Expenses	0.83%
Total Annual Operating Expenses	2.04% (2)

(1) Shareholders participating in the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan would pay $0.75 per transaction to purchase shares and $2.50 per transaction to sell shares. See "Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan" in the SAI.

(2) The Investment Adviser has voluntarily agreed to waive the portion of its investment advisory fee attributable to an amount of assets of the Fund equal to the aggregate stated value of its outstanding Series A Preferred Shares and/or Series B Preferred Shares for any calendar year in which the net asset value total return of the Fund allocable to the common shares, including distributions and the advisory fee subject to potential waiver, is less than (i) in the case of the Series A Preferred Shares, the stated annual dividend rate of such series and (ii) in the case of the Series B Preferred Shares, the net cost of capital to the Fund with respect to the Series B Preferred Shares for such year expressed as a percentage (including, without duplication, dividends paid by the Fund on the Series B Preferred Shares and the net cost to the Fund of any associated swap or cap transaction if the Fund hedges its Series B Preferred Shares dividend obligations). This waiver will apply separately to the portion of the Fund's assets attributable to the Series A Preferred Shares and Series B Preferred Shares for so long as any shares of such series remain outstanding.

EXAMPLE

The following examples illustrate the projected dollar amount of cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in the Fund. These amounts are based upon payment by the Fund of expenses at levels set forth in the above table.

You would pay the following expenses on a $1,000 investment, assuming a 5% annual return (3):

1 YEAR	3 YEARS	5 YEARS	10 YEARS
$21	$64	$110	$237

The foregoing example is to assist you in understanding the various costs and expenses that an investor in the Fund will bear directly or indirectly. The assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Fund's Common Shares. ACTUAL EXPENSES AND ANNUAL RATES OF RETURN MAY BE MORE OR LESS THAN THOSE ASSUMED FOR PURPOSES OF THE EXAMPLE.

(3) Amounts are exclusive of fees discussed in Note (1) above.

FINANCIAL HIGHLIGHTS

The table below sets forth selected financial data for a Common Share outstanding throughout the periods presented. The per share operating performance and ratios for the fiscal years ended December 31, 2003, December 31, 2002, December 31, 2001, December 31, 2000 and the period ended December 31, 1999 have been audited by PricewaterhouseCoopers LLP, the Fund's independent registered public accounting firm, as stated in their report

which is incorporated by reference into the SAI. The following information should be read in conjunction with the Financial Statements and Notes thereto, which are incorporated by reference into the SAI.

SELECTED DATA FOR A utility trust share of beneficial interest OUTSTANDING THROUGHOUT EACH PERIOD

	Six Months Ended June 30, 2004 (unaudited)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
OPERATING PERFORMANCE:				
Net asset value, beginning of period............................	$ 6.83	$ 6.27	$ 7.32	$ 8.21
Net investment income.............	0.06	0.10	0.11	0.12
Net realized and unrealized gain(loss) on investments.........	0.18	1.17	(0.62)	(0.32)
Total from investment operations..	0.24	1.27	(0.51)	(0.20)

DISTRIBUTIONS TO PREFERRED STOCK SHAREHOLDERS:				
Net investment income.............	(0.04)	(0.01)	--	--
Net realized gain on investments..	--	(0.04)	--	--
Total distributions to preferred stock shareholders......	(0.04)	(0.05)	--	--
NET INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO COMMON STOCK SHAREHOLDERS RESULTING FROM OPERATIONS:	0.20	1.22	(0.51)	(0.20)
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:				
Net investment income.............	(0.02)	(0.09)	(0.11)	(0.21)
Net realized gain on investments..	--	(0.22)	(0.36)	(0.49)
Return of capital.................	(0.34)	(0.41)	(0.25)	--
Total distributions to common stock shareholders................	(0.36)	(0.72)	(0.72)	(0.70)
CAPITAL SHARE TRANSACTIONS:				
Increase in net asset value from common stock share transactions......................	0.01	0.03	0.03	0.01
Increase in net asset value from shares issued in rights offering.........................	--	0.12	0.15	--
Offering costs for preferred shares charged to paid-in capital..........................	--	(0.09)	--	--
Total capital share transactions	0.01	0.06	0.18	0.01
NET ASSET VALUE ATTRIBUTABLE TO COMMON STOCK SHAREHOLDERS, END OF PERIOD:	$ 6.68	$ 6.83	$ 6.27	$ 7.32
Market value, end of period.......	$ 9.22	$ 9.60	$ 8.72	$ 9.33
Net asset value total return +....	3.14%	18.60%	(6.79%)	(3.15%)
Total Investment Return ++........	0.04%	19.86%	1.70%	15.82%

	Six Months Ended June 30, 2004 (unaudited)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
RATIOS TO AVERAGE NET ASSETS AND SUPPLEMENTAL DATA:				
Net assets including liquidation value of preferred shares, end of period (in 000's)............	$ 208,663	$ 211,507	$ 95,111	$ 82,197
Net assets attributable to common shares, end of period (in 000's)............	$ 154,031	$ 156,507	$ 95,111	$ 82,197
Ratio of net investment income to average net assets attributable to common shares (c)..................	1.87%(b)	1.52%	1.65%	1.57%
Ratio of operating expenses to average net assets attributable to common shares (c)(d)................	1.77%(b)	2.04%	1.93%	2.00%
Ratio of operating expenses to average total net assets including liquidation value of preferred shares (d).......	1.30%(b)	1.68%	--	--
Portfolio turnover rate`........	8%	28%	29%	41%
PREFERRED STOCK:				
5.625% CUMULATIVE PREFERRED STOCK				
Liquidation value, end of period (in 000's)..............	$ 29,618	$ 30,000	--	--
Total shares outstanding (in 000's).........................	1,185	1,200	--	--
Liquidation preference per share.........................	$ 25.00	$ 25.00	--	--
Average market value (e)........	$ 24.64	$ 25.12	--	--
Asset coverage per share........	$ 95.50	$ 96.14	--	--
AUCTION RATE CUMULATIVE PREFERRED STOCK				
Liquidation value, end of period (in 000's)...............	$ 25,000	$ 25,000	--	--
Total shares outstanding (in 000's)	1	1	--	--
Liquidation preference per share.........................	$ 25,000	$ 25,000	--	--
Average market value (e)........	$ 25,000	$ 25,000	--	--
Asset coverage per share........	$ 95,504	$ 96,140	--	--
ASSET COVERAGE (f).............	382%	385%	--	--

+ Based on net asset value per share, adjusted for reinvestment of distribution, including the effect of shares issued pursuant to the rights offering, assuming full subscription by shareholder. Total return for the period of less than one year is not annualized.

++ Based on market value per share, adjusted for reinvestment of distributions including the effects of shares issued pursuant to rights offering, assuming full subscription by shareholders. Total return for the period of less than one year is not annualized.

(a) The Gabelli Utility Trust commenced investment operations on July 9, 1999.

(b) Annualized.

(c) During the period ended December 31, 1999, the Utility Trust's administrator voluntarily reimbursed certain expenses. If such reimbursement had not occurred, the annualized ratios of net investment income and operating expenses to average net assets would have been 1.85% and 2.17%, respectively.

(d) The ratios do not include a reduction of expenses for custodian fee credits on cash balances maintained with the custodian. Including such custodian fee credits for the six months ended June 30, 2004 and the years ended December 31, 2003, 2002, 2001 and 2000, the ratio of operating expenses to average net assets attributable to common stock would be 1.77%, 2.04%, 1.93%, 2.00% and 1.93%, respectively, and the ratios of operating expenses to average total net assets including liquidation value of preferred shares would be 1.30% and 1.68%.

(e) Based on weekly prices.

(f) Asset coverage calculated by combining all series of preferred stock.

* Based on current earnings and subject to change and recharacterization at fiscal year end.

THE OFFER

TERMS OF THE OFFER

The Fund is issuing to Record Date Shareholders Rights to subscribe for additional Common Shares. Each Record Date Shareholder is being issued one transferable Right for each Common Share owned on the Record Date. The Right entitles the holder to acquire at the Subscription Price one Share for each four Rights held rounded up to the nearest number of Rights evenly divisible by four. Fractional shares will not be issued upon the exercise of the Rights. Accordingly, Shares may be purchased only pursuant to the exercise of Rights in integral multiples of four. In the case of Common Shares held of record by Cede & Co. ("Cede"), as nominee for the Depository Trust Company ("DTC"), or any other depository or nominee, the number of Rights issued to Cede or such other depository or nominee will be adjusted to permit rounding up (to the nearest number of Rights evenly divisible by four) of the Rights to be received by beneficial owners for whom it is the holder of record only if Cede or such other depository or nominee provides to the Fund on or before the close of business on October __, 2004 written representation of the number of Rights required for such rounding. Rights may be exercised at any time during the period (the "Subscription Period"), which commences on October __, 2004, and ends at 5:00 p.m., New York time, on November __, 2004 (the "Subscription Period"), unless extended by the Fund to a date not later than November __, 2004, 5:00 p.m., New York time. See "Expiration of the Offer." The Right to acquire one additional Share for each four Rights held during the Subscription Period at the Subscription Price will be referred to in the remainder of this Prospectus as the "Primary Subscription."

In addition, any Record Date Shareholder who fully exercises all Rights initially issued to him is entitled to subscribe for Common Shares available for Primary Subscription (the "Primary Subscription Shares") that were not subscribed for by other Rights holders on Primary Subscription. In addition, in the event that the Common Shares on the Expiration Date are trading at or above its per share net asset value, the Fund may, in its sole discretion, issue up to an additional _______ shares (the "Secondary Over-Subscription Shares") to satisfy over-subscription requests in excess of the available Primary Subscription Shares. The Fund, in its sole discretion, would also be able to issue additional Common Shares in an amount of up to 20% of the sum of the Primary Subscription Shares and Secondary Over- Subscription Shares. The entitlement to subscribe for un-subscribed Primary Subscription Shares, any Secondary Over-Subscription Shares and any additional Common Shares is available only to those Record Date shareholders who fully exercise all Rights initially issued to them and only on the basis of their Record Date holdings and will be referred to in the remainder of this Prospectus as the "Over-Subscription Privilege"). For purposes of determining the maximum number of Common Shares a Record Date Shareholder may acquire pursuant to the Offer, broker-dealers whose Common Shares are held of record by Cede, nominee for DTC, or by any other depository or nominee, will be deemed to be the holders of the Rights that are issued to Cede or such other depository or nominee on their behalf. Common Shares acquired pursuant to the Over-Subscription Privilege are subject to allotment, which is more fully discussed below under "Over-Subscription Privilege." RIGHTS ACQUIRED IN THE SECONDARY MARKET MAY NOT PARTICIPATE IN THE OVERSUBSCRIPTION PRIVILEGE.

Officers of the Investment Adviser have advised the Fund that the Affiliated Parties, as Record Date Shareholders, have been authorized to purchase Common Shares through the Primary Subscription and the Over-Subscription Privilege to the extent Common Shares become available to it in accordance with the Primary Subscription and the allotment provisions of the Over-Subscription Privilege. In addition, Mario J. Gabelli individually or his affiliated entities, as a Record Date Shareholder, may also purchase Common Shares through the Primary Subscription and the Over-Subscription Privilege. Such over-subscriptions by the Affiliated Parties and Mr. Gabelli may disproportionately increase their already existing ownership resulting in a higher percentage ownership of outstanding Common Shares if any Record Date Shareholder fails to fully exercise its Rights. Any Common Shares acquired whether by Primary Subscription or the Over-Subscription Privilege by the Affiliated Parties or Mr. Gabelli, as "affiliates" of the Fund as that term is defined under the Securities Act of 1933 (the "Securities Act"), may only be sold in accordance with Rule 144 under the Securities Act or another applicable exemption or pursuant to an effective registration statement under the Securities Act. In general, under Rule 144, as currently in effect, an "affiliate" of the Fund is entitled to sell, within any three-month period, a number of Common Shares that does not exceed the greater of 1% of the then outstanding Common Shares or the average weekly reported trading volume of the Common Shares during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain restrictions on the manner of sale, to notice requirements and to the availability of current public information about the Fund.

Rights will be evidenced by Subscription Certificates. The number of Rights issued to each holder will be stated on the Subscription Certificate delivered to the holder. The method by which Rights may be exercised and shares paid for is set forth below in "Method of Exercise of Rights" and "Payment for Shares." A Rights holder will have no right to rescind a purchase after the Subscription Agent has received payment. See "Payment for Shares" below. Common Shares issued pursuant to an exercise of Rights will be listed on the NYSE.

The Rights are transferable until the Expiration Date and will be admitted for trading on the NYSE. Assuming a market exists for the Rights, the Rights may be purchased and sold through usual brokerage channels and sold through the Subscription Agent. Although no assurance can be given that a market for the Rights will develop, trading in the Rights on the NYSE will begin three Business Days before the Record Date and may be conducted until the close of trading on the last NYSE trading day prior to the Expiration Date due to normal settlement procedures. Rights that are sold will not confer any right to acquire any Common Shares in the primary or secondary oversubscription, and any Record Date shareholder who sells any Rights will not be eligible to participate in the primary or secondary oversubscription. Trading of the Rights on the NYSE will be conducted on a when-issued basis until and including the date on which the Subscription Certificates are mailed to Record Date Shareholders and thereafter will be conducted on a regular way basis until and including the last NYSE trading day prior to the Expiration Date. The method by which Rights may be transferred is set forth below under "Method of Transferring Rights." The Common Shares will begin trading ex-Rights two Business Days prior to the Record Date.

Nominees who hold the Fund's Common Shares for the account of others, such as banks, brokers, trustees or depositories for securities, should notify the respective beneficial owners of such shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. Nominees should also notify holders purchasing Rights in the secondary market that such Rights may not participate in the over-subscription privilege. If the beneficial owner so instructs, the nominee will complete the Subscription Certificate and submit it to the Subscription Agent with proper payment. In addition, beneficial owners of the Common Shares or Rights held through such a nominee should contact the nominee and request the nominee to effect transactions in accordance with such beneficial owner's instructions.

PURPOSE OF THE OFFER

The Board of Trustees of the Fund has determined that it would be in the best interests of the Fund and the shareholders to increase the assets of the Fund available for investment thereby permitting the Fund to be in a better position to more fully take advantage of investment opportunities that may arise. The Offer seeks to reward existing shareholders by giving them the right to purchase Shares at a price that may be below market and/or net asset value without incurring any commission charge. The distribution to shareholders of transferable Rights, which themselves may have intrinsic value, will also afford non-subscribing shareholders the potential of receiving a cash payment upon sale of such Rights, receipt of which may be viewed as partial compensation for the possible dilution of their interests in the Fund.

The Fund's Investment Adviser will benefit from the Offer because the Investment Adviser's fee is based on the average net assets of the Fund. See "Management of the Fund." It is not possible to state precisely the amount of additional compensation the Investment Adviser will receive as a result of the Offer because the proceeds of the Offer will be invested in additional portfolio securities which will fluctuate in value. However, assuming all Rights are exercised and that the Fund receives the maximum proceeds of the Offer, the annual compensation to be received by the Investment Adviser would be increased by approximately $________ net of offering expenses. Three of the Fund's Trustees, including Mario J. Gabelli, who voted to authorize the Offer are "interested persons" of the Investment Adviser within the meaning of the 1940 Act and may benefit indirectly from the Offer because of their interest in the Investment Adviser. See "Management of the Fund" in the SAI. In determining that the Offer was in the best interest of shareholders, the Fund's Board of Trustees was cognizant of this benefit as well as the possible participation of the Affiliated Parties and Mr. Gabelli in the Offer as shareholders on the same basis as other shareholders.

The Fund may, in the future and at its discretion, choose to make additional rights offerings from time to time for a number of shares and on terms which may or may not be similar to the Offer. Any such future rights offering will be made in accordance with the 1940 Act. Under the laws of Delaware, the state in which the Fund is organized, and the Trust's Declaration of Trust, the Board of Trustees is authorized to make rights offerings without

obtaining shareholder approval. The staff of the Securities and Exchange Commission ("SEC") has interpreted the 1940 Act as not requiring shareholder approval of a rights offering at a price below the then current net asset value so long as certain conditions are met, including a good faith determination by the Fund's Board of Trustee's that such offering would result in a net benefit to existing shareholders.

OVER-SUBSCRIPTION PRIVILEGE

If all of the Rights initially issued are not exercised, any Primary Subscription Shares for which subscriptions have not been received will be offered, by means of the Over-Subscription Privilege, to Record Date Shareholders who have exercised all the Rights initially issued to them and who wish to acquire additional Common Shares. Record Date Shareholders who exercise all the Rights initially issued to them will have the opportunity to indicate on the Subscription Certificate how many Shares they are willing to acquire pursuant to the Over-Subscription Privilege. If sufficient Primary Subscription Shares remain after the Primary Subscriptions have been exercised, all over-subscription requests will be honored in full. If sufficient Primary Subscription Shares are not available to honor all subscription requests, the available Common Shares will be allocated among those Record Date Shareholders who over-subscribe based on the number of Rights originally issued to them by the Fund. RIGHTS ACQUIRED IN THE SECONDARY MARKET MAY NOT PARTICIPATE IN THE OVERSUBSCRIPTION PRIVILEGE.

In addition, the Board of Trustees of the Fund has established a Pricing Committee which is authorized, in the event that the Fund's per share net asset value on the Expiration Date is at or below the Subscription Price, to direct the Fund to issue Secondary Over-Subscription Shares to satisfy over-subscription requests in excess of the available Primary Subscription Shares. The Fund would also be able to issue additional Common Shares in an amount of up to 20% of the sum of the Primary Subscription Shares and Secondary Over-Subscription Shares to satisfy over-subscription requests in these circumstances. Should the Pricing Committee determine to issue some or all of these Secondary Over-Subscription Shares and any additional Common Shares, they will be allocated only among Record Date Shareholders that submitted over-subscription requests. Secondary Over-Subscription Shares and any additional Common Shares will be allocated pro rata among those fully exercising Record Date Shareholders who over-subscribe based on the number of Rights originally issued to them by the Fund. Any Secondary Over-Subscription Shares issued by the Fund, collectively with any Primary Subscription Shares not subscribed for through the Primary Subscription, and any additional Common Shares, will be referred to in this Prospectus as the "Excess Shares." RIGHTS ACQUIRED IN THE SECONDARY MARKET MAY NOT PARTICIPATE IN THE OVERSUBSCRIPTION PRIVILEGE.

The percentage of Excess Shares each over-subscribing Record Date Shareholder may acquire will be rounded down to result in delivery of whole Common Shares; provided, however, that if a pro rata allocation results in any holder being allocated a greater number of Excess Shares than the holder subscribed for pursuant to the exercise of such holder's Over-Subscription Privilege, then such holder will be allocated only such number of Excess Shares as such holder subscribed for and the remaining Excess Shares will be allocated among all other holders then entitled to receive Excess Shares whose over-subscription requests have not been fully honored. The allocation process may be iterative in order to assure that the total number of Excess Shares is distributed in accordance with the method described above.

The formula to be used in allocating the Excess Shares is as follows:

$$\frac{\text{Record Date Shareholder's Record Date Position} \times \text{Excess Shares Remaining}}{\text{Total Record Date Position of All Over-Subscribers}}$$

The Fund will not offer or sell any Common Shares which are not subscribed for under the Primary Subscription or the Over-Subscription Privilege.

THE SUBSCRIPTION PRICE

The Subscription Price for the Shares to be issued pursuant to the Rights will be $____.

15

The Fund announced the Offer on August 19, 2004. The net asset value per Common Share at the close of business on August 18, 2004 (the last date prior to the Fund's announcement of the Offer), was $6.61. The last reported sale price of a Common Share on the NYSE on that date was $9.72, representing a 47.05% premium in relation to the then current net asset value per share and a premium in relation to the Subscription Price.

SALES BY SUBSCRIPTION AGENT

Holders of Rights who are unable or do not wish to exercise any or all of their Rights may instruct the Subscription Agent to sell any unexercised

Rights. The Subscription Certificates representing the Rights to be sold by the Subscription Agent must be received on or before November ___, 2004. Upon the timely receipt of the appropriate instructions to sell Rights, the Subscription Agent will use its best efforts to complete the sale and will remit the proceeds of sale, net of commissions, to the holders. If the Rights can be sold, sales of the Rights will be deemed to have been effected at the weighted average price received by the Subscription Agent on the day such Rights are sold. The selling Rights holder will pay all brokerage commissions incurred by the Subscription Agent. These sales may be effected by the Subscription Agent through Gabelli & Company, Inc., a registered broker-dealer and an affiliate of the Investment Adviser, at a commission of up to $0.02 per Right, provided that, if the Subscription Agent is able to negotiate a lower brokerage commission with an independent broker, the Subscription Agent will execute these sales through that independent broker. Gabelli & Company, Inc. may also act on behalf of its clients to purchase or sell Rights in the open market and be compensated for its services. The Subscription Agent will automatically attempt to sell any unexercised Rights that remain unclaimed as a result of Subscription Certificates being returned by the postal authorities as undeliverable as of the fourth Business Day prior to the Expiration Date. These sales will be made net of commissions on behalf of the nonclaiming holders of Rights. Proceeds from those sales will be held by EquiServe, in its capacity as the Fund's transfer agent, for the account of the nonclaiming holder of rights until the proceeds are either claimed or escheated. There can be no assurance that the Subscription Agent will be able to complete the sale of any of these Rights and neither the Fund nor the Subscription Agent has guaranteed any minimum sales price for the Rights. All of these Rights will be sold at the market price, if any, on the NYSE or through an unaffiliated market maker if no market exists on the NYSE.

METHOD OF TRANSFERRING RIGHTS

The Rights evidenced by a single Subscription Certificate may be transferred in whole by endorsing the Subscription Certificate for transfer in accordance with the accompanying instructions. A portion of the Rights evidenced by a single Subscription Certificate (but not fractional Rights) may be transferred by delivering to the Subscription Agent a Subscription Certificate properly endorsed for transfer, with instructions to register the portion of the Rights evidenced thereby in the name of the transferee (and to issue a new Subscription Certificate to the transferee evidencing the transferred Rights). In this event, a new Subscription Certificate evidencing the balance of the Rights will be issued to the Rights holder or, if the Rights holder so instructs, to an additional transferee.

Holders wishing to transfer all or a portion of their Rights (but not fractional Rights) should allow at least three Business Days prior to the Expiration Date for (i) the transfer instructions to be received and processed by the Subscription Agent, (ii) a new Subscription Certificate to be issued and transmitted to the transferee or transferees with respect to transferred Rights, and to the transferor with respect to retained rights, if any, and (iii) the Rights evidenced by the new Subscription Certificates to be exercised or sold by the recipients thereof. Neither the Fund nor the Subscription Agent shall have any liability to a transferee or transferor of Rights if Subscription Certificates are not received in time for exercise or sale prior to the Expiration Date.

Except for the fees charged by the Subscription Agent (which will be paid by the Fund as described below), all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred in connection with the purchase, sale or exercise of Rights will be for the account of the transferor of the Rights, and none of these commissions, fees or expenses will be paid by the Fund or the Subscription Agent.

The Fund anticipates that the Rights will be eligible for transfer through, and that the exercise of the Primary Subscription and Over-Subscription may be effected through, the facilities of DTC (Rights exercised through DTC are referred to as "DTC Exercised Rights").

EXPIRATION OF THE OFFER

The Offer will expire at 5:00 p.m., New York time, on November ___, 2004, unless extended by the Fund to a date not later than December ___, 2004, 5:00 p.m., New York time (the "Expiration Date"). Rights will expire on the Expiration Date and thereafter may not be exercised.

SUBSCRIPTION AGENT

The Subscription Agent is EquiServe Attn: Corporate Actions, P.O. Box 859208, Braintree, MA 02185-9208. The Subscription Agent will receive from the Fund an amount estimated to be $______ comprised of the fee for its services and the reimbursement for certain expenses related to the Offer. INQUIRIES BY ALL HOLDERS OF RIGHTS SHOULD BE DIRECTED TO P.O. BOX 43025, PROVIDENCE, R.I. 02940-3025 (TELEPHONE (800) 336-6983 OR (781) 575-2000); HOLDERS MAY ALSO CONSULT THEIR BROKERS OR NOMINEES.

METHOD OF EXERCISE OF RIGHTS

Rights may be exercised by filling in and signing the reverse side of the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Subscription Agent, together with payment for the Shares as described below under "Payment for Shares." Rights may also be exercised through a Rights holder's broker, who may charge the Rights holder a servicing fee in connection with such exercise.

Completed Subscription Certificates must be received by the Subscription Agent prior to 5:00 p.m., New York time, on the Expiration Date (unless payment is effected by means of a notice of guaranteed delivery as described below under "Payment for Shares"). The Subscription Certificate and payment should be delivered to EquiServe at the following address:

If By Mail:	Equiserve Attn: Corporate Actions P.O. Box 859208 Braintree, MA 02185-9208
If By Hand:	Securities Transfer and Reporting Services, Inc. c/o EquiServe 100 Williams St. Galleria New York, NY 10038
If By Overnight Courier:	EquiServe Attn: Corporate Actions 161 Bay State Drive Braintree, MA 02184

PAYMENT FOR SHARES

Holders of Rights who acquire Shares on Primary Subscription or pursuant to the Over- Subscription Privilege may choose between the following methods of payment:

(1) A holder of Rights can send the Subscription Certificate together with payment in the form of a check for the Shares subscribed for on Primary Subscription and additional Common Shares subscribed for pursuant to the Over-Subscription Privilege to the Subscription Agent based on the Subscription Price of $______ per Share. To be accepted, the payment, together with the executed Subscription Certificate, must be received by the Subscription Agent at the addresses noted above prior to 5:00 p.m., New York time, on the Expiration Date. The Subscription Agent will deposit all stock purchase checks received by it prior to the final due date into a segregated interest-bearing account pending proration and distribution of Common Shares. The Subscription Agent will not accept cash as a means of payment for Common Shares.

EXCEPT AS OTHERWISE SET FORTH BELOW, A PAYMENT PURSUANT TO THIS METHOD MUST BE IN UNITED STATES DOLLARS BY MONEY ORDER OR CHECK DRAWN ON A BANK LOCATED IN THE CONTINENTAL UNITED STATES, MUST BE PAYABLE TO THE GABELLI UTILITY TRUST, AND MUST ACCOMPANY AN EXECUTED SUBSCRIPTION CERTIFICATE TO BE ACCEPTED. If the aggregate Subscription Price paid by a Record Date Shareholder is insufficient to purchase the number of Common Shares that the holder indicates are being subscribed for, or if a Record Date Shareholder does not specify the number of Common Shares to be purchased, then the Record Date Shareholder will be deemed to have exercised first, the Primary Subscription Rights (if not already fully exercised) and second, the Over-Subscription Privilege to the full extent of the payment tendered. If the aggregate Subscription Price paid by such holder is greater than the Common Shares he has indicated an intention to subscribe, then the Rights holder will be deemed to have exercised first, the Primary Subscription Rights (if not already fully subscribed) and second, the Over-Subscription Privilege to the full extent of the excess payment tendered.

(2) A subscription will be accepted by the Subscription Agent if, prior to 5:00 p.m., New York time, on the Expiration Date, the Subscription Agent has received payment for the shares subscribed for on Primary Subscription and additional Common Shares subscribed for in the Over-subscription Privilege to the Subscription Agent based on the subscription price of $__ per Share as described above. A notice of guaranteed delivery by telegram or otherwise from a bank, a trust company, or a NYSE member, guaranteeing delivery of a properly completed and executed Subscription Certificate. The Subscription Agent will not honor a notice of guaranteed delivery if a properly completed and executed Subscription Certificate is not received by the Subscription Agent by the close of business on the third Business Day after the Expiration Date. The notice of guaranteed delivery may be delivered to the Subscription Agent in the same manner as Subscription Certificates at the addresses set forth above, or may be transmitted to the Subscription Agent by facsimile transmission (fax number (781) 380-3388; telephone number to confirm receipt (781) 843-1833, extension 200).

Any payment required from a holder of Rights must be received by the Subscription Agent on the Expiration Date. All payments by a holder of Rights must be in United States dollars by money order or check drawn on a bank located in the continental United States of America and payable to The Gabelli Utility Trust. Issuance and delivery of certificates for the Shares purchased are subject to collection of checks.

Within ten Business Days following the Expiration Date (the "Confirmation Date"), a confirmation will be sent by the Subscription Agent to each holder of Rights (or, if the Common Shares are held by Cede or any other depository or nominee, to Cede or such other depository or nominee), showing (i) the number of Shares acquired pursuant to the Primary Subscription, (ii) the number of Excess Shares, if any, acquired pursuant to the Over-Subscription Privilege, (iii) the per share and total purchase price for the Common Shares and (iv) any excess to be refunded by the Fund to such holder as a result of payment for Common Shares pursuant to the Over-Subscription Privilege which the holder is not acquiring. Any payment required from a holder of Rights must be received by the Subscription Agent on the Expiration Date, or if the Rights holder has elected to make payment by means of a notice of guaranteed delivery, on the third Business Day after the Expiration Date. Any excess payment to be refunded by the Fund to a holder of Rights, or to be paid to a holder of Rights as a result of sales of Rights on his behalf by the Subscription Agent or exercises by Record Date Shareholders of their Over-Subscription Privileges, and all interest accrued on the holder's excess payment will be mailed by the Subscription Agent to the holder within fifteen Business Days after the Expiration Date. Interest on the excess payment will accrue through the date that is one Business Day prior to the mail date of the reimbursement check. All payments by a holder of Rights must be in United States dollars by money order or check drawn on a bank located in the continental United States of America and payable to The Gabelli Utility Trust except that holders of Rights who are residents of Canada may make payment in U.S. dollars by money order or check drawn on a bank located in Canada.

A Rights holder will have no right to rescind a purchase after the Subscription Agent has received payment.

If a holder of Rights who acquires Common Shares pursuant to the Primary Subscription or the Over-Subscription Privilege does not make payment of any amounts due, the Fund reserves the right to take any or all of the following actions: (i) find other purchasers for such subscribed-for and unpaid-for Common Shares; (ii) apply any payment actually received by it toward the purchase of the greatest whole number of Common Shares which could be acquired by such holder upon exercise of the Primary Subscription or the Over-Subscription Privilege; (iii)

sell all or a portion of the Common Shares purchased by the holder, in the open market, and apply the proceeds to the amounts owed; and (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Common Shares and to enforce the relevant guaranty of payment.

Nominees who hold Common Shares for the account of others, such as brokers, trustees or depositories for securities, should notify the respective beneficial owners of the Common Shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the record holder of the Rights should complete Subscription Certificates and submit them to the Subscription Agent with the proper payment. In addition, beneficial owners of Common Shares or Rights held through such a nominee should contact the nominee and request the nominee to effect transactions in accordance with the beneficial owner's instructions. Banks, broker-dealers and trust companies that hold Common Shares for the accounts of others are advised to notify those persons that purchase Rights in the secondary market that such Rights may not participate in the over-subscription privilege.

The instructions accompanying the Subscription Certificates should be read carefully and followed in detail. DO NOT SEND SUBSCRIPTION CERTIFICATES TO THE FUND.

THE METHOD OF DELIVERY OF SUBSCRIPTION CERTIFICATES AND PAYMENT OF THE SUBSCRIPTION PRICE TO THE SUBSCRIPTION AGENT WILL BE AT THE ELECTION AND RISK OF THE RIGHTS HOLDERS, BUT IF SENT BY MAIL IT IS RECOMMENDED THAT THE CERTIFICATES AND PAYMENTS BE SENT BY REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, AND THAT A SUFFICIENT NUMBER OF DAYS BE ALLOWED TO ENSURE DELIVERY TO THE SUBSCRIPTION AGENT AND CLEARANCE OF PAYMENT PRIOR TO 5:00 P.M., NEW YORK TIME, ON THE EXPIRATION DATE. BECAUSE UNCERTIFIED PERSONAL CHECKS MAY TAKE AT LEAST FIVE BUSINESS DAYS TO CLEAR, YOU ARE STRONGLY URGED TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF A CERTIFIED OR CASHIER'S CHECK OR MONEY ORDER.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, whose determinations will be final and binding. The Fund in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. Neither the Fund nor the Subscription Agent will be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

DELIVERY OF STOCK CERTIFICATES

Certificates representing Common Shares purchased pursuant to the Primary Subscription will be delivered to subscribers as soon as practicable after the corresponding Rights have been validly exercised and full payment for the Common Shares has been received and cleared. Certificates representing Common Shares purchased pursuant to the Over-Subscription Privilege will be delivered to subscribers as soon as practicable after the Expiration Date and after all allocations have been effected. Participants in the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan (the "Plan") will be issued Rights for the Common Shares held in their accounts in the Plan. Participants wishing to exercise these Rights must exercise the Rights in accordance with the procedures set forth above in "Method of Exercise of Rights" and "Payment for Shares." Rights will not be exercised automatically by the Plan. Plan participants exercising their Rights will receive their Primary and Over-Subscription Shares via an uncertificated credit to their existing account. To request a stock certificate, participants in the Plan should check the appropriate box on the Subscription Certificate. These Common Shares will remain subject to the same investment option as previously selected by the Plan participant.

FOREIGN RESTRICTIONS

Subscription Certificates will only be mailed to Record DateShareholders whose addresses are within the United States and Canada (other than an APO or FPO address). Record Date Shareholders whose addresses are outside the United States and Canada or who have an APO or FPO address and who wish to subscribe to the Offer

either in part or in full should contact the Subscription Agent, EquiServe, by written instruction or recorded telephone conversation no later than three Business Days prior to the Expiration Date. The Fund will determine whether the offering may be made to any such shareholder. If the Subscription Agent has received no instruction by the third Business Day prior to the Expiration Date or the Fund has determined that the Offering may not be made to a particular shareholder, the Subscription Agent will attempt to sell all of such shareholder's Rights and remit the net proceeds, if any, to such shareholders. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the weighted average price received by the Subscription Agent on the day the Rights are sold, less any applicable brokerage commissions, taxes and other expenses.

FEDERAL INCOME TAX CONSEQUENCES TO SHAREHOLDERS

For U.S. federal income tax purposes, neither the receipt nor the exercise of the Rights will result in taxable income to you. Moreover, you will not realize a loss if you do not exercise the Rights. The holding period for a Common Share acquired upon exercise of a Right begins with the date of exercise. The basis for determining gain or loss upon the sale of a share acquired upon the exercise of a Right will be equal to the sum of:

- the subscription price per share,
- any servicing fee charged to you by your broker, bank or trust company, and
- the basis, if any, in the Rights that you exercised.

A gain or loss recognized upon a sale of a Common Share acquired upon the exercise of a Right will be a capital gain or loss assuming the Common Share is held as a capital asset at the time of sale. This gain or loss will be a long-term capital gain or loss if the Common Share has been held at the time of sale for more than one year.

As noted above, your basis in Common Shares issued under the Offer includes your basis in the Rights underlying those Shares. Assuming that, as the Fund expects, the aggregate fair market value of the Rights at the time they are distributed is less than 15% of the aggregate fair market value of the Fund's Common Shares at such time, the basis of the Rights issued to you will be zero unless you elect to allocate your basis of previously owned Common Shares to the Rights issued to you in the Offer. This allocation is based upon the relative fair market value of such Common Shares and the Rights as of the date of distribution of the Rights. Thus, if you make such an election and the Rights are later exercised, the basis in the Common Shares you originally owned will be reduced by an amount equal to the basis allocated to the Rights. This election must be made in a statement attached to your federal income tax return for the year in which the Rights are distributed. If the Rights expire without exercise, you will realize no loss and you will not be permitted to allocate a portion of your basis in the Common Shares to the unexercised Rights.

The foregoing is a general summary of the material United States federal income tax consequences of the receipt and exercise of Rights. The discussion is based upon applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury regulations thereunder and other authorities currently in effect, and does not address state, local or foreign taxes. The Code and Treasury regulations thereunder are subject to change by legislative or administrative action, possibly with retroactive effect. You should consult your tax advisors regarding specific questions as to federal, state, local or foreign taxes. You should also review the discussion of certain tax considerations affecting yourself and the Fund set forth under "Taxation."

EMPLOYEE PLAN CONSIDERATIONS

Rights holders that are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including corporate savings and 401(k) plans, Keogh Plans of self-employed individuals and Individual Retirement Accounts ("IRA") (each a "Benefit Plan" and collectively, "Benefit Plans"), should be aware that additional contributions of cash in order to exercise Rights may be treated as Benefit Plan contributions and, when taken together with contributions previously made, may subject a Benefit Plan to excise taxes for excess or nondeductible contributions. In the case of Benefit Plans qualified under Section 401(a) of the Code, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or

other qualification rules to be violated. Benefit Plans contemplating making additional cash contributions to exercise Rights should consult with their counsel prior to making such contributions.

Benefit Plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow in order to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income ("UBTI") under Section 511 of the Code. If any portion of an IRA is used as security for a loan, the portion so used is also treated as distributed to the IRA depositor.

ERISA contains prudence and diversification requirements and ERISA and the Code contain prohibited transaction rules that may impact the exercise of Rights. Among the prohibited transaction exemptions issued by the Department of Labor that may exempt a Benefit Plan's exercise of Rights are Prohibited Transaction Exemption 84-24 (governing purchases of shares in investment companies) and Prohibited Transaction Exemption 75-1 (covering sales of securities).

Due to the complexity of these rules and the penalties for noncompliance, Benefit Plans should consult with their counsel regarding the consequences of their exercise of Rights under ERISA and the Code.

USE OF PROCEEDS

The net proceeds of the Offer, assuming all Primary Subscription Shares offered hereby are sold, are estimated to be approximately $_____________, before deducting expenses payable by the Fund estimated at approximately $______________. The net proceeds of the Offer assuming all Secondary Over- subscription Shares are sold in addition to all Primary Subscription Shares, are estimated to be approximately $_____________, before deducting expenses payable by the Fund estimated to be $___________. The net proceeds of the Offering assuming all Secondary Over-subscription Shares and all additional Common Shares are sold in addition to all Primary Subscription Shares are estimated to be $______________ before deducting expenses payable by the Fund expected to be $_______________. The Investment Adviser anticipates that investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed in approximately three months; however, the identification of appropriate investment opportunities pursuant to the Investment Adviser's investment style or changes in market conditions may cause the investment period to extend as long as six months.

INVESTMENT OBJECTIVES AND POLICIES

The Fund is a closed-end non-diversified management investment company organized under the laws of the State of Delaware on February 25, 1999.

The primary objectives of the Fund are long-term growth of capital and income, which the Fund attempts to achieve by investing at least 80% of its total assets in common stock and other securities of foreign and domestic companies involved to a substantial extent (e.g., at least 50% of the assets, gross income or net profits of a company is committed to or derived from) in providing products, services or equipment for (i) the generation or distribution of electricity, gas and water and (ii) telecommunications services or infrastructure operations, such as airports, toll roads and municipal services (collectively, the "Utility Industry"). The remaining 20% of its assets may be invested in other securities including stocks, equity securities, debt obligations and money market instruments, as well as certain derivative instruments in the utility industry or other industries. Moreover, should extraordinary conditions affecting such sectors or securities markets as a whole warrant, the Fund may temporarily be primarily invested in money market instruments. When the Fund is invested in these instruments for temporary or defensive purposes it may not achieve its investment objective.

The investment policy of the Fund relating to the type of securities in which 80% of the Fund's total assets must be invested may be changed by the Board of Trustees without shareholder approval. Shareholders will, however, receive at least 60 days prior notice of any change in this policy.

Although many companies in the Utility Industry traditionally pay above average dividends, the Fund intends to focus on those companies whose securities have the potential to increase in value. The Fund's

21

performance is expected to reflect conditions affecting public utility industries. These industries are sensitive to factors such as interest rates, local and national government regulations, the price and availability of fuel, environmental protection or energy conservation regulations, weather, the level of demand for services, and the risks associated with constructing and operating nuclear power facilities. These factors may change rapidly. The Fund emphasizes quality in selecting utility investments, and generally looks for companies that have proven dividend records and sound financial structures. Believing that the industry is under consolidation due to changes in regulation, the Fund intends to position itself to take advantage of trends in consolidation.

Under normal circumstances the Fund will invest in securities of issuers located in countries other than the United States and may invest in such foreign securities without limitation. Investing in securities of foreign issuers, which generally are denominated in foreign currencies, may involve certain risk and opportunity considerations not typically associated with investing in domestic companies and could cause the Fund to be affected favorably or unfavorably by changes in currency exchange rates and revaluations of currencies.

INVESTMENT METHODOLOGY OF THE FUND

In selecting securities for the Fund, the Investment Adviser normally will consider the following factors, among others:

- the Investment Adviser's own evaluations of the private market value, cash flow, earnings per share and other fundamental aspects of the underlying assets and business of the company;

- the potential for capital appreciation of the securities;

- the interest or dividend income generated by the securities;

- the prices of the securities relative to other comparable securities;

- whether the securities are entitled to the benefits of call protection or other protective covenants;

- the existence of any anti-dilution protections or guarantees of the security; and

- the number of issuers in the Fund's portfolio.

The Investment Adviser's investment philosophy with respect to debt and equity securities is to identify assets that are selling in the public market at a discount to their private market value, which the Investment Adviser defines as the value informed purchasers are willing to pay to acquire assets with similar characteristics. The Investment Adviser also normally evaluates the issuers' free cash flow and long-term earnings trends. Finally, the Investment Adviser looks for a catalyst -- something in the company's industry or indigenous to the company or country itself that will surface additional value.

TEMPORARY DEFENSIVE INVESTMENTS

During temporary defensive periods and during inopportune periods to be fully invested, the Fund may invest in U.S. government securities and in money market mutual funds not affiliated with the Investment Adviser that invest in those securities. Obligations of certain agencies and instrumentalities of the U.S. government, such as the Government National Mortgage Association, are supported by the "full faith and credit" of the U.S. government; others, such as those of the Export-Import Bank of the U.S., are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. government will provide financial support to U.S. government-sponsored instrumentalities if it is not obligated to do so by law. During temporary defensive periods, the Fund may not achieve its investment objective.

OPTIONS

On behalf of the Fund, the Investment Adviser may, subject to the guidelines of the Board of Trustees, purchase or sell, i.e., write, options on securities, securities indices and foreign currencies which are listed on a national securities exchange or in the U.S. over-the-counter ("OTC") markets as a means of achieving additional return or of hedging the value of the Fund's portfolio. The Fund may write covered call options on common stocks that it owns or has an immediate right to acquire through conversion or exchange of other securities in an amount not to exceed 25% of total assets or invest up to 10% of its total assets in the purchase of put options on common stocks that the Fund owns or may acquire through the conversion or exchange of other securities that it owns.

A call option is a contract that gives the holder of the option the right to buy from the writer (seller) of the call option, in return for a premium paid, the security underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price during the option period.

A put option is a contract that gives the holder of the option the right to sell to the writer (seller), in return for the premium, the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy the underlying security upon exercise, at the exercise price during the option period.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. There can be no assurance that a closing purchase transaction can be effected when the Fund so desires.

An exchange-traded option may be closed out only on an exchange which provides a secondary market for an option of the same series. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option.

FUTURES CONTRACTS AND OPTIONS THEREON

The Fund may purchase and sell financial futures contracts and options thereon which are traded on a commodities exchange or board of trade for certain hedging, yield enhancement and risk management purposes, in accordance with regulations of the Commodity Futures Trading Commission ("CFTC") and the Fund's fundamental investment restrictions. These futures contracts and related options may be on debt securities, financial indices, securities indices, U.S. government securities and foreign currencies. A financial futures contract is an agreement to purchase or sell an agreed amount of securities or currencies at a set price for delivery in the future.

FORWARD CURRENCY EXCHANGE CONTRACTS

The Fund may enter into forward foreign currency exchange contracts to protect the value of its portfolio against future changes in the level of currency exchange rates. The Fund may enter into such contracts on a spot, i.e., cash, basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into a forward contract to purchase or sell currency. A forward contract on foreign currency is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract at a price set on the date of the contract. The Fund's dealings in forward contracts will be limited to hedging involving either specific transactions or portfolio positions, and the amount the Fund may invest in forward currency contracts is limited to the amount of its aggregate investments in foreign currencies. The Fund will only enter into forward currency contracts with parties which it believes to be creditworthy.

LEVERAGING

As provided in the 1940 Act and subject to compliance with the Fund's investment objectives, policies and restrictions, the Fund may issue debt or preferred shares (such as the outstanding Series A or Series B Preferred Shares) so long as the Fund's total assets immediately after such issuance, less certain ordinary course liabilities,

exceed 300% of the amount of the debt outstanding and exceed 200% of the sum of the amount of preferred shares and debt outstanding. Such debt or preferred shares may be convertible in accordance with SEC staff guidelines which may permit the Fund to obtain leverage at more attractive rates.

Further information on the investment objectives and policies of the Fund are set forth in the SAI.

INVESTMENT RESTRICTIONS

The Fund has adopted certain investment restrictions as fundamental policies of the Fund. Under the 1940 Act, a fundamental policy may not be changed without the vote of a majority of the outstanding voting securities of the Fund, as defined in the 1940 Act. The Fund's investment restrictions are more fully discussed under "Investment Restrictions" in the SAI.

PORTFOLIO TURNOVER

The Fund buys and sells securities to accomplish its investment objective. The investment policies of the Fund may lead to frequent changes in investments, particularly in periods of rapidly fluctuating interest or currency exchange rates. The portfolio turnover may be higher than that of other investment companies.

Portfolio turnover generally involves some expense to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities and may result in taxable gains being passed to shareholders. The portfolio turnover rate is computed by dividing the lesser of the amount of the long-term securities purchased or securities sold by the average monthly value of securities owned during the year (excluding securities whose maturities at acquisition were one year or less). Higher portfolio turnover may decrease the after-tax return to individual inv">

Table of Contents

	Three Months Ended March 31,	
	2005	2004
	(unaudited; in thousands, except per share amounts)	
Net income (loss) allocable to common stockholders as reported	$ 2,500	$ (419)
Add: Restricted stock expense, net of related tax effects	75	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(142)	(151)
Pro forma income (loss)	$ 2,433	$ (570)
Earnings (Loss) per share:		
Basic as reported	$ 0.16	$ (0.03)
Basic pro forma	$ 0.15	$ (0.04)
Diluted as reported	$ 0.16	$ (0.03)
Diluted pro forma	$ 0.15	$ (0.04)

(3) Warrants

On March 25, 2003, the Company issued 15,000 shares of Series B Convertible Preferred Stock and warrants to purchase 248,800 shares of NATCO s common stock to Lime Rock Partners II, L.P. The warrants have an exercise price of $10.00 per share of common stock and expire on March 25, 2006. The Company can force the exercise of the warrants if NATCO s common stock trades above $13.50 per share for 30 consecutive days. The warrants contain a provision whereby the holder could require the Company to make a net-cash settlement for the warrants in the case of a change in control. The warrants were deemed to be derivative instruments and, therefore, the warrants were recorded at fair value as of the issuance date. Fair value, as agreed with the counter-party to the agreement, was calculated by applying a pricing model that included subjective assumptions for stock volatility, expected term that the warrants would be outstanding, a dividend rate of zero and an overall liquidity factor. The Company recorded the resulting liability of $99,000 as of the issuance date. The Company adjusted this liability to $400,000 as of March 31, 2005, from $196,000 at December 31, 2004 as a result of the change in the fair value of the warrants. The Company recorded an expense of $204,000 for the quarter ended March 31, 2005 and a gain of $33,000 for the quarter ended March 31, 2004. Similarly, changes in fair value in future periods will be recorded in net income during the period of the change.

(4) Earnings (Loss) per Share

The Company computed basic earnings per share by dividing net income allocable to common stockholders by the weighted average number of shares outstanding for the period. Net income allocable to common stockholders at March 31, 2005, represented net income less preferred stock dividends accrued. The Company determined diluted earnings per common and potential common share at March 31, 2005, as net income allocable to common stockholders divided by the weighted average number of shares outstanding for the period, after applying the if-converted method to determine any incremental shares associated with convertible preferred stock, warrants and restricted stock outstanding. The effect of such incremental shares was 47,310 shares at March 31, 2005. These shares were considered common and potential common shares for purposes of calculating earnings per share at March 31, 2005, in accordance with SFAS No. 128, Earnings per Share. Outstanding employee stock options were considered potential common shares for purposes of this calculation. The potential common shares related to employee stock options were 179,349 for the three-month period ended March 31, 2005. If anti-dilutive shares were included for the quarter ended March 31, 2005, the impact would have been a reduction of 34,574 shares. For the three months ended March 31, 2004, all potential common shares related to employee stock options were considered anti-dilutive as the Company recorded a net loss allocable to common shareholders during the period. Anti-dilutive stock options were excluded from the calculation of potential common shares. If anti-dilutive shares were included in the calculation for the three-month period ended March 31, 2004, the impact would have been a reduction of 321,385 shares. The following table presents the computation of basic and diluted earnings (loss) per common and potential common share for the three months ended March 31, 2005 and 2004, respectively:

	Three Months Ended March 31, 2005			Three Months Ended March 31, 2004		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
	(unaudited, in thousands, except per share amounts)					
Net income (loss)	$ 2,875			$ (44)		
Less: Preferred stock dividends accrued and paid	(375)			(375)		
Basic EPS:						
Income (loss) allocable to common stockholders	$ 2,500	15,816	$ 0.16	$ (419)	15,908	$ (0.03)
Effect of dilutive securities:						
Stock options, warrants and restricted stock		226				
Diluted EPS:						
Income (loss) allocable to common stockholders	$ 2,500	16,042	$ 0.16	$ (419)	15,908	$ (0.03)

7

Table of Contents

(5) Inventories

Inventories consisted of the following amounts:

	March 31, 2005	December 31, 2004
	(unaudited)	
	(in thousands)	
Finished goods	$ 12,016	$ 14,056
Work-in-process	12,410	9,887
Raw materials and supplies	17,449	19,116
Inventories at FIFO	41,875	43,059
Excess of FIFO over LIFO cost	(4,465)	(4,420)
	$ 37,410	$ 38,639

(6) Costs and Estimated Earnings on Uncompleted Contracts

Cost and estimated earnings on uncompleted contracts were as follows:

	March 31, 2005	December 31, 2004
	(unaudited)	
	(in thousands)	
Cost incurred on uncompleted contracts	$ 66,508	$ 98,328
Estimated earnings	17,217	22,947
	83,725	121,275
Less billings to date	73,341	110,976
	$ 10,384	$ 10,299
Included in the accompanying balance sheet under the captions:		
Trade accounts receivable	$ 18,236	$ 19,396
Customer advances	(7,852)	(9,097)
	$ 10,384	$ 10,299

(7) Closure, Severance and Other

In December 2004, the Company recorded severance expense of $1.3 million related to the restructuring plan which included involuntary termination of certain administrative and operating personnel in the UK and Canada. The Company recorded facility closure costs of $42,000, a gain on foreign exchange of $15,000 and made payments of $515,000 in the first quarter of 2005 related to this plan. The Company also recorded a gain of $388,000 on the sale of a facility in the UK during the quarter ended March 31, 2005. At March 31, 2005, the Company had a liability of approximately $819,000 related to this matter.

In September 2004, the Company recorded severance expense of $210,000 related to staff reductions in Oil & Water Technologies segment. As of March 31, 2005, the Company had a $39,000 liability related to this matter.

Table of Contents

On July 28, 2004, the Company entered into a Separation Agreement with Mr. Nathaniel A. Gregory, then the Company s CEO, pursuant to which Mr. Gregory stepped down as Chairman of the Board of Directors on that date and agreed to resign from the Company on September 7, 2004. The Company recorded expense of approximately $2.5 million related to (1) severance payments (2) continuation of Mr. Gregory s welfare benefits for a period of 36 months following separation, (3) extending the exercise dates for Mr. Gregory s outstanding options to 18 months following the separation date for which the Company recorded approximately $62,000 for stock based employee compensation expense, (4) payment of certain of his attorneys fees in connection with the Separation Agreement, and (6) reimbursement of certain moving expenses. The Company has paid $2.4 million of this amount through March 31, 2005. As of March 31, 2005, the Company had a liability of $101,000 related to the separation agreement.

The Company also agreed to (1) accelerate vesting of any of Mr. Gregory s outstanding options, (2) reimburse certain living and commuting expense through the separation date consistent with past practice, (3) continue providing director and officer indemnification insurance for a period of time, (4) pay bonuses earned through the separation date pursuant to the Company s bonus plan and (5) continue to reimburse Mr. Gregory s office space in Connecticut through December 31, 2004. The cost of these items has been or will be expensed in the period incurred. Under this Agreement, Mr. Gregory agreed to provide advisory services for a period of one year following the separation date, when and as requested by the Board, and to release the Company from certain potential claims. The Company did not incur any cost related to this item during the year and, if incurred, will record as an expense in the period incurred. The parties also agreed on certain procedures for the repayment of Mr. Gregory s then outstanding loans to the Company, which were paid in full on July 28, 2004.

In June 2004, the Company recorded and paid severance expense of $111,000 primarily associated with staff reductions in the Automation & Controls segment and a subsidiary within the Oil & Water Technologies segment.

In December 2003, the Company s management approved additional restructuring costs including a plan to close a location in Singapore and recorded closure and other expense of $692,000, of which $515,000 related to severance, $35,000 related to the termination of a lease arrangement and $142,000 related to employee relocation. The Company had no liability related to this restructuring plan as of March 31, 2005, and does not expect to incur additional costs related to this office closure in 2005.

In September 2003, the Company recorded expenses of $722,000 associated with a management-approved restructuring plan, which included the involuntary termination of certain administrative and operating personnel in connection with the closure of a manufacturing facility in Covington, Louisiana, at the Company s corporate headquarters, at the Company s research and development facility in Tulsa, Oklahoma, and related to the consolidation of operations in the UK. Of the total expense recognized under this restructuring plan, $640,000 related to post-employment benefits, which were accounted for in accordance with SFAS No. 112, Employers Accounting for Post-employment Benefits, an amendment of FASB Statements No. 5 and 43, and $82,000 related to consultant s fees, equipment moving costs and employee relocations, which were accounted for in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. During the year ended December 31, 2004, the Company incurred an additional $51,000 of expense related to this restructuring plan, offset by accrual reversals as a result of changes in the assessment of liability under this plan totaling $77,000, resulting in an increase in net income of $26,000 for the year ended December 31, 2004. The Company had a liability of $44,000 related to this restructuring plan as of March 31, 2005 and does not expect to incur additional costs in 2005.

Following is a summary of closure, severance and other expense included in Other, net:

	For the three months ended March 31,	
	2005	**2004**

	(in thousands)	
Severance	$ 42	$
Leasehold termination		
Contract expenses and other		
	$ 42	$

Table of Contents

A roll forward of the Company s accrued closure, severance and other costs as of March 31, 2005 and December 31, 2004, follows (in thousands):

Balance at December 31, 2004	$ 1,547
Payments	(571)
Severance	42
Leasehold termination	
Other (1)	(15)
Balance at March 31, 2005	$ 1,003

(1) Foreign exchange impact of $(15,000).

The estimated payment of this liability at March 31, 2005 is $725,000 in 2005, $265,000 in 2006 and $13,000 in 2007.

(8) Long-Term Debt

The Company had the following consolidated borrowings as of the date indicated:

	March 31, 2005	December 31, 2004
	(unaudited) (in thousands, except percentages)	
Bank debt		
2004 term loan with variable interest rate (5.38% to 5.94% at March 31, 2005) and quarterly payments of principal ($1,607) and interest, due March 31,2007	$ 38,571	$ 40,179
2004 revolving credit bank loans with variable interest rate (5.48% - 6.25% at March 31, 2005) and quarterly interest payments, due March 31, 2007	4,979	4,090
Promissory note with variable interest rate (6.02% at March 31, 2005) and quarterly payments of principal ($24) and interest, due February 8, 2007	1,168	1,192
Revolving credit bank loans (export sales facility) with variable interest rate and monthly interest payments, due March 31, 2007		
Total	$ 44,718	$ 45,461
Less current installments	(6,526)	(6,526)
Long-term debt	$ 38,192	$ 38,935

On July 23, 2004, the Company and two of its subsidiaries entered into an international revolving credit agreement with Wells Fargo HSBC Trade Bank, N.A. providing for loans of up to $10 million, subject to borrowing base limitations. This working capital facility for export sales is secured by specific project inventory and receivables, as well as certain other inventory, accounts receivable and equipment, and is partially guaranteed by the US Export-Import Bank. Loans under this facility mature on March 31, 2007, and bear interest at either (1) a Base Rate, as defined in the agreement, less 0.25% or (2) the London Interbank Offered Rate (LIBOR) plus 2.00%, at the Company s election. This facility replaced a similar export sales credit facility that terminated on July 23, 2004. Letters of credit outstanding under this facility as of March 31, 2005 were $5.2 million. This facility had fees related to letters of credit of approximately 1.00% of the outstanding balance for the period January 1, 2005 to March 31, 2005.

On March 15, 2004, the Company replaced its term loan and revolving facilities agreement with a new term loan and revolving facilities agreement, referred to as the 2004 term loan and revolving credit facilities, which provides for a term loan of $45.0 million, a US revolving facility with a borrowing capacity of $20.0 million, a Canadian revolving facility with a borrowing capacity of $5.0 million and a UK revolving facility with a borrowing capacity of $10.0 million. All of the borrowing capacities under the 2004 revolving facilities agreement are subject to borrowing base limitations.

Table of Contents

The Company recorded a charge of $667,000 in March 2004 to expense unamortized loan costs related to the 2001 term loan and revolving credit facilities, and incurred an additional $995,000 of deferred loan costs related to the 2004 term loan and revolving credit facilities, which will be amortized as interest expense through the term of the facilities in March 2007.

The 2004 term loan and revolving facilities agreement provides for interest at a rate based upon the ratio of Funded Debt to EBITDA, as defined in the credit facility (EBITDA), and ranging from, at the Company s election, (1) a high of LIBOR plus 2.75% to a low of LIBOR plus 2.00% or (2) a high of a base rate plus 1.75% to a low of a base rate plus 1.00%. The Company will pay commitment fees related to this agreement on the undrawn portion of the facility, depending upon the ratio of Funded Debt to EBITDA, which were calculated at 0.50% at March 31, 2005.

Borrowings of $38.6 million were outstanding under the term loan portion of the 2004 term loan and revolving credit facilities at March 31, 2005, and bore interest at an average rate of 5.90%. Borrowings outstanding under the revolving credit portion of the 2004 term loan and revolving credit facility at March 31, 2005 were $5.0 million and bore interest at rates between 5.48% and 6.25%. The Company had letters of credit outstanding under these revolving facilities of $18.7 million. Fees related to these letters of credit were approximately 2.50% of the outstanding balance at March 31, 2005. These letters of credit support contract performance and warranties and expire at various dates through February 2008.

The 2004 term loan and revolving facilities agreement is secured by a first lien or first priority security interest in or pledge of substantially all of the assets of the borrowers and certain subsidiaries, including accounts receivable, inventory, equipment, intangibles, equity interests in US subsidiaries, 66-1/3% of the equity interest in active, non-US subsidiaries and interests in certain contracts. Assets of the Company and its active US subsidiaries secure the US, Canadian and UK revolving facilities, assets of the Company s Canadian subsidiary also secure the Canadian facility and assets of the Company s UK subsidiaries also secure the UK facility. The US facility is guaranteed by each US subsidiary of the Company, while the Canadian and UK facilities are guaranteed by NATCO Group Inc., each of its US subsidiaries and the Canadian subsidiary or the UK subsidiaries, as applicable.

The Company paid commitment fees of 0.50% for the quarter ended March 31, 2005 on the undrawn portion of the revolving credit facilities of the 2004 term loan and revolving credit facilities.

The 2004 term loan and revolving facilities agreement contains restrictive covenants including, among others, those that limit the amount of Funded Debt to EBITDA, impose a minimum fixed charge coverage ratio and impose a minimum net worth requirement. In March 2005, the Company s lenders approved an amendment of various provisions of the 2004 term loan and revolving facilities effective January 1, 2005. This amendment revised certain restrictive debt covenants, modified certain defined terms and changes the submission of financial statements to the lenders to more closely reflect the current SEC requirements for furnishing financial information. On March 31, 2005, the Company was in compliance with all restrictive debt covenants under its loan agreements.

With respect to the 2004 term loan and revolving credit facilities, NATCO has agreed that it will not make any distributions of any property or cash to the Company or its stockholders except dividends required under the Series B Preferred Stock provisions. No dividends were declared or paid to common stockholders during the quarter ended March 31, 2005. Dividends of $375,000 related to the Series B Preferred Stock were accrued during the quarter ended March 31, 2005.

Prior to March 15, 2004, the Company maintained a credit facility that consisted of a $50.0 million term loan, a $30.0 million US revolving facility, a $10.0 million Canadian revolving facility and a $10.0 million UK revolving facility, referred to as the 2001 term loan and revolving facilities. The 2001 term loan and revolving facilities were terminated on March 15, 2004 and replaced by the 2004 term loan and revolving facilities.

Amounts borrowed under the 2001 revolving facilities portion of the agreement bore interest at a rate based upon the ratio of Funded Debt to EBITDA and ranging from, at the Company s election, (1) a high of LIBOR plus 3.00% to a low of LIBOR plus 1.75% or (2) a high of a base rate plus 1.50% to a low of a base rate plus 0.25%.

The Company paid commitment fees of 0.30% to 0.625% per year after 2002 on the undrawn portion of the 2001 revolving credit facilities agreement, depending upon the ratio of Funded Debt to EBITDA. Prior to retirement of this facility in March 2004, the Company s commitment fees were calculated at a rate of 0.625%.

On February 6, 2002, the Company borrowed $1.5 million under a long-term promissory note to finance the purchase of a manufacturing facility in Magnolia, Texas. This note accrues interest at the 90-day LIBOR plus 3.25%, and requires quarterly payments of principal of approximately $24,000 and interest for five years beginning May 2002, with a final balloon payment due February 2007. The outstanding balance of this note was $1.2 million at March 31, 2005 and bore interest at 6.02%. This promissory note is collateralized by the manufacturing facility in Magnolia, Texas.

The Company previously maintained a working capital facility for export sales that provided for aggregate borrowings of $10.0 million, subject to borrowing base limitations, which matured on July 23, 2004 and was replaced by a similar facility on that date, which expires on March 31, 2007. The export sales credit facility was secured by specific project inventory and receivables, and was partially guaranteed by the US Export-Import Bank. The Company had fees related to letters of credit under this facility, which were approximately 1% of the outstanding balance for the period from January 1, 2004 to July 23, 2004.

The Company also had unsecured letters of credit and bonds totaling $382,000 and guarantees totaling $23.9 million at March 31, 2005.

(9) Income Taxes

NATCO s effective income tax rate for the three months ended March 31, 2005 was 38%, which exceeded the amount that would have resulted from applying the U.S. federal statutory tax rate due to the impact of state income taxes, foreign income tax rate differentials, losses in foreign subsidiaries, changes in valuation allowances recorded and certain permanent book-to-tax differences. There are certain prior tax returns currently under review by taxing authorities. Although we believe we have adequately provided for income taxes, the ultimate outcome may differ from the amounts recorded in our financial statements. Such determinations could materially affect our financial results in that period or such periods for which such determination is made.

(10) Business Segments

NATCO restructured its organization effective as of January 1, 2005 in order to improve our execution and customer focus. NATCO allocates corporate and other expenses to each of the business segments. This allocation is based on headcount, total assets, revenues and bookings. Corporate assets are allocated to the segments based on the total assets of the segment. The new reporting units are Oil & Water Technologies, Gas Technologies and Automation & Controls.

The Oil & Water Technologies group includes our traditional oil and gas separation and dehydration equipment sales and related services, our extensive North American branch distribution network, and our worldwide engineered systems group, all of which are focused primarily on oil and water production and processing systems.

The Gas Technologies group includes our CO_2 membrane business, the assets and operating relationship related to our gas processing facilities in West Texas, H_2S removal technologies including Shell Paques and other gas-related technologies that focus on removing contaminants from the gas stream.

The Automation & Controls group remains unchanged, focusing on sales of new control panels and systems which monitor and control oil and gas production, as well as field service activities including repair, maintenance, testing and inspection services for existing systems.

The accounting policies of the reportable segments were consistent with the policies used to prepare the Company s condensed consolidated financial statements for the respective periods presented. The Company evaluates the performance of its operating segments based on income before net interest expense, income taxes, depreciation and amortization expense, closure and other, write-off of unamortized loan costs, other, net and accounting changes.

Certain segment amounts previously reported for the three months ended March 31, 2004 have been reclassified to conform to the presentation of segment amounts reported for the three months ended March 31, 2005.

Summarized financial information concerning the Company s reportable segments is shown in the following table.

Table of Contents

	Oil & Water Technologies	Gas Technologies	Automation & Control	Eliminations	Total
	(unaudited, in thousands)				
Three Months Ended March 31, 2005					
Revenues from unaffiliated customers	$ 66,714	$ 7,897	$ 14,045		$ 88,656
Inter-segment revenues	291		1,107	$ (1,398)	
Segment profit	1,430	4,065	1,600		7,095
Total assets	187,656	42,497	23,231		253,384
Capital expenditures	698	6	176		880
Depreciation and amortization	685	551	87		1,323
Three Months Ended March 31, 2004					
Revenues from unaffiliated customers	$ 54,346	$ 6,824	$ 10,814		$ 71,984
Inter-segment revenues	229		804	$ (1,033)	
Segment profit	241	3,118	161		3,520
Total assets	174,541	46,497	19,401		240,439
Capital expenditures	786	6	47		839
Depreciation and amortization	732	540	102		1,374

The following table reconciles total segment profit to net income (loss):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
	(unaudited, in thousands)	
Total segment profit	$ 7,095	$ 3,520
Net interest expense	1,173	1,098
Depreciation and amortization	1,323	1,374
Write-off of unamortized loan costs		667
Other, net	(38)	454
Net income (loss) before income taxes	4,637	(73)
Income tax provision (benefit)	1,762	(29)
Net income (loss)	$ 2,875	$ (44)

The Company s geographic data for total assets for continuing operations for the quarters ended March 31, 2005 and 2004 were as follows:

	United States	Canada	United Kingdom	Other	Consolidated
March 31, 2005					
Total assets	$ 152,398	$ 26,369	$ 70,541	$ 4,076	$ 253,384
March 31, 2004					

Total assets	$ 139,887	$ 19,596	$ 75,135	$ 5,821	$ 240,439

(11) Pension and Other Postretirement Benefits

The Company maintains a postretirement benefit plan that provides health care and life insurance benefits for retired employees of a predecessor company. This plan is accounted for in accordance with SFAS No. 106, Employer s Accounting for Postretirement Benefits Other than Pensions. The Company has recorded a liability for the actuarially determined accumulated postretirement benefit obligation associated with this plan.

On December 31, 2003, the President of the United States signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003. In May 2004, the Financial Accounting Standards Board issued FSP FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This pronouncement requires the Company to determine whether or not the benefit provided under its plan is actuarially equivalent to the Medicare prescription drug-benefit. If the benefit provided is actuarially equivalent and this federal subsidy is deemed a significant event, the Company is required to account for the federal subsidy attributable to past services as an actuarial gain under FSP SFAS No. 106 and to reduce the accumulated postretirement benefit obligation. For the portion of the federal subsidy attributable to current or future service, the Company is required to reduce net periodic postretirement benefit cost while the employee provides the service. The Company s actuary made a preliminary assessment that the benefits provided under its postretirement benefit plan are actuarially equivalent and that this law could reduce the Company s overall accumulated postretirement benefit obligation by $2.2 million, and thereby reduce the annual net periodic benefit cost associated with this plan. Based on this preliminary assessment, for the year ended December 31, 2004, net periodic benefit cost was reduced by approximately $374,000, of which $170,000 related to a reduction of interest cost and $204,000 related to a reduction of the amortization of the cumulative experience loss, to reflect the most recent estimate of the Company s net periodic benefit cost under this postretirement benefit plan.

Table of Contents

The following table summarizes the components of net periodic benefit cost under the Company s postretirement benefit plan as of March 31, 2005 and 2004, respectively:

	Three Months Ended March 31,	
	2005	2004
	(unaudited, in thousands)	
Unrecognized prior service cost	$ (177)	$ (146)
Interest cost	210	221
Unrecognized loss	177	150
Net periodic benefit cost	$ 210	$ 225

During the three months ended March 31, 2005, there were no significant modifications or changes to the level of contributions provided to the plan by the Company or the plan participants.

(12) Goodwill and Intangible Assets

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company evaluates intangible assets with indefinite lives, including goodwill, on an impairment basis, while intangible assets with a defined term, such as patents, are amortized over the useful life of the asset.

Intangible assets subject to amortization as of March 31, 2005 and 2004 were:

	As of March 31, 2005		As of March 31, 2004	
Type of Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(unaudited, in thousands)			
Deferred financing fees	$ 1,100	$ 395	$ 684	$ 10
Patents	183	59	164	40
Other	308	89	534	286
Total	$ 1,591	$ 543	$ 1,382	$ 336

Amortization and interest expense of $157,000 and $181,000 were recognized related to these assets for the three months ended March 31, 2005 and 2004, respectively. During the three months ended March 31, 2004, the Company recorded expense of $667,000 related to the write-off of deferred financing fees, resulting from the retirement of the 2001 term loan and revolving credit facilities. See Note 8, Long-Term Debt. The estimated aggregate amortization and interest expense for these assets for each of the following five fiscal years is: 2005 $376,000; 2006 $395,000; 2007 $125,000; 2008 $30,000; and 2009 $30,000. For segment reporting purposes, these intangible assets and the related amortization expense were allocated to each segment.

Net goodwill of $80.6 million was the Company s only intangible asset that did not require periodic amortization as of March 31, 2005. The decrease of $33,000 in the value of goodwill during the three months ended March 31, 2005 related entirely to currency exchange rate fluctuations.

In accordance with SFAS No. 142, the Company tested each business segment for impairment of goodwill at December 31, 2004, and, based upon the results of this testing, management determined that goodwill was not impaired. The Company will test each business segment for goodwill impairment annually, as required by the pronouncement, or more frequently if there are indications of goodwill impairment. No additional testing was performed during the three months ended March 31, 2005, as management noted no indications of goodwill impairment.

(13) Litigation

Magnum Transcontinental Corp. Arbitration and Petroserv, S.A. v. National Tank Company, 165th Jud. Dist. Ct., Harris Co., TX (Cause No. 200418769). These matters stemmed from an agreement among NATCO Group, Magnum Transcontinental Corporation, the US procurement arm and Petroserv S.A., and Zephyr Offshore, Inc., a Petroserv subsidiary, to manufacture and install a processing plant on a Petroserv rig, and Petroserv s agency agreement with NATCO for certain projects in Brazil. NATCO claimed Magnum owed it $418,990 under the plant manufacturing agreement for additional work performed in excess of the days agreed in the contract. NATCO submitted the matter to binding American Arbitration Association arbitration on October 29, 2003. In the arbitration, Magnum originally counter-claimed for $4,685,000, alleging breach of contract. Magnum amended its answer and counter-claim in the arbitration on July 16, 2004, reducing its total amount claimed to $1,304,000. At an arbitration hearing held in October 2004, Magnum further reduced its counter claim by $570,000. On February 11, 2005, the arbitrator awarded NATCO the full amount of its claim, plus interest, and granted Magnum a total of $58,000 on its counterclaim. Neither party appealed the arbitrator s determination within the period provided and Magnum paid NATCO approximately $410,000 on March 24, 2005.

After NATCO filed its request for arbitration, Petroserv submitted a mediation request under its representation agreement with NATCO, claiming unpaid agency fees on several contracts, including the Magnum contract. No resolution resulted from the mediation, which was held on January 23, 2004. NATCO believed any fees owed to Petroserv under the agency agreement were offset by NATCO s claims against Magnum. NATCO disputed that it owed any fees for the Magnum work or any work obtained in Brazil after the representation agreement terminated in early 2003. Petroserv served a collections suit in state court in May 2004, seeking over $731,323, plus attorneys fees, interest and court costs, representing amounts allegedly due under the representation agreement on several contracts, including the Magnum Transcontinental contract. NATCO filed a counterclaim in this action, claiming breach of the agency agreement and fiduciary obligations Petroserv owed to NATCO. A second unsuccessful mediation was held in the case in August 2004. On March 11, 2005, NATCO and Petroserv agreed to settle this lawsuit, with NATCO paying approximately $420,000 to Petroserv for commissions earned, accrued interest and legally recoverable attorneys fees. NATCO applied the funds received in the Magnum arbitration discussed above to this settlement payment.

Jose Corona, Individually and as Personal Representative of the Estate of Noe Corona, Sr., et al. v. NATCO Group Inc. and Jaime Liendo, 381st Judicial District Court, Starr County, Texas (Cause No. DC-04-175). This lawsuit, filed in 2004, arose from a 2003 automobile accident involving an employee of one of our subsidiaries and Noe Corona, Sr., who died from injuries sustained in the accident. The original filing did not specify damages. Mediation was conducted on March 30, 2005, with no success. Plaintiffs amended the filing on April 15, 2005 to plead damages of up to $30 million related to mental anguish, grief, bereavement, loss of society, companionship, damage to the familial relationship, and loss of care, counseling, and guidance allegedly suffered by six surviving adult children, as well as funeral and medical expenses and pain and suffering of Noe Corona. Trial of this matter is set for June 6, 2005, in Rio Grande City, Texas. The Company denies any liability for the accident and intends to vigorously defend this matter.

The Company and its subsidiaries are defendants or otherwise involved in a number of other legal proceedings in the ordinary course of business. While the Company insures against the risk of these proceedings, including the Corona matter, to the extent deemed prudent by management, NATCO can 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 business activities. While the Company cannot predict the outcome of any legal proceedings with certainty, in the opinion of management, ultimate liability with respect to these pending lawsuits, including the Corona matter, is not expected to have a significant or material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

(14) Recent Accounting Pronouncements

In May 2004, the FASB issued FSP FAS No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This pronouncement requires the Company to determine whether or not the benefit provided is actuarially equivalent to the Medicare prescription drug-benefit. If the benefit provided is actuarially equivalent and the subsidy is deemed a significant event, the Company is required to account for the federal subsidy attributable to past services as an actuarial gain under SFAS No. 106 and to reduce the accumulated post retirement benefit obligation. For the portion of the federal subsidy attributable to current or future service, the Company is required to reduce net periodic post-retirement benefit cost while the employee provides the service. This pronouncement became effective for interim or annual reporting periods beginning after June 15, 2004. The Company adopted this pronouncement on June 30, 2004. The required disclosures have been incorporated into Note 13, Pension and Other Postretirement Benefits, of the notes to our Consolidated Financial Statements reported in our Annual Report on Form 10-K/A for the year ended December 31, 2004.

Table of Contents

In December 2004, FASB issued SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS 123R). This amendment requires expensing of stock options and other share-based payments and supercedes SFAS No. 123 which allowed companies to choose between expensing stock options or showing proforma disclosure only. This standard is effective for the Company as of January 1, 2006 and will apply to all awards granted modified, cancelled or repurchased after that date as well as unvested portion of prior awards. The Company will adopt the standard as of the effective date. The Company expects to record additional compensation expense at that time.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company has not completed the assessment of the impact, if any, that SFAS No. 151 will have on results of operations, financial position or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets , which amends APB Opinion No. 29. The guidance in APB 29, Accounting for Nonmonetary Transactions , is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The amendment made by SFAS No. 153 eliminates the exception for exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of the statement are effective for exchanges taking place in fiscal periods beginning after June 15, 2005. The Company will adopt the standard as of the effective date and believes it will not have a material impact on the Company s results of operations, financial position or cash flows.

In December 2004, the FASB issued FASB Staff Position No. 109-1 (FSP 109-1), *Application of FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109) to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004,* which provides guidance on the recently enacted American Jobs Creation Act of 2004 (the Jobs Creation Act). The Jobs Creation Act provides a tax deduction for income from qualified domestic production activities. FSP 109-1 provides for the treatment of the deduction as a special deduction as described in SFAS No. 109. As such, the deduction will have no effect on existing deferred tax assets and liabilities. The impact of the deduction is to be reported in the period in which the deduction is claimed on our US tax return. We do not expect that this deduction will have a significant impact on our effective tax rate in current or future years. FSP 109-1 became effective as of January 1, 2005.

In December 2004, the FASB issued FASB Staff Position No. 109-2 (FSP 109-2), *Accounting and Disclosure Guidance for the Foreign Repatriation Provision within the American Jobs Creation Act of 2004,* which provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Jobs Creation Act on a company s income tax expense and deferred tax liability. FSP 109-2 states that a company is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Creation Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. We have not yet decided on whether, and to what extent, we might elect to repatriate foreign earnings under the provisions in the Jobs Creation Act. Any such repatriation under the Jobs Creation Act must occur by December 31, 2005. Accordingly, our consolidated financial statements do not reflect a provision for taxes related to this election. The maximum amount we could elect to repatriate at this time is approximately $1.0 million. Our evaluation of the effect if the election is made is expected to be completed by the end of the second quarter of 2005.

In March 2005, the FASB issued FASB Interpretation No. (FIN) 47, Accounting for Conditional Asset Retirement Obligations. FIN 47 clarifies that the term conditional asset retirement obligation, as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The Company will adopt the standard as of the effective date and does not expect the adoption of FIN 47 to have a material effect on the Company s financial position or results of operations for the year ended December 31, 2005.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

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. The words believe, expect, plan, intend, estimate, project, 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 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), future uses of and requirements for financial resources (see Liquidity and Capital Resources), and backlog levels in 2005 (see Liquidity and Capital Resources). Our expectations about our business outlook, customer spending, oil and gas prices, our business environment and that of the industry in general are only our expectations regarding these matters. Actual results may differ materially from those expressed in the forward-looking statements 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 OPEC, conflict involving the United States or in major petroleum producing or consuming regions, acts of terrorism, the development of technology that could lower overall finding and development costs, weather patterns and the overall condition of capital and equity markets for countries in which we operate.

Table of Contents

The following discussion should be read in conjunction with the financial statements, related notes and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q. Readers also are urged to review and consider carefully the various disclosures advising interested parties of the factors that affect our business, including but not limited to, the disclosures made under the caption Risk Factors and the other factors and risks discussed in our Annual Report on Form 10-K/A for the year ended December 31, 2004, and in 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 or any change in events, conditions or circumstances on which any forward-looking statement is based.

Overview

In July 2004, the Board of Directors announced the resignation of the Company s then Chief Executive Officer effective in September 2004, and named John U. Clarke, then an independent director of the Company, as Chairman and interim CEO. The Board of Directors conducted a search for a replacement and appointed Mr. Clarke as Chief Executive Officer in December 2004.

We restructured our organization effective as of January 1, 2005 in order to improve our execution and customer focus. By organizing our business segments to better concentrate our proprietary technologies on specific end-use markets, we believe we can be more responsive to our customers needs as well as to new market opportunities. In addition, we expect to establish clearer roles and responsibilities for our senior management team with appropriate levels of accountability and performance metrics to improve execution while at the same time increasing financial transparency for our shareholders. For financial reporting purposes, commencing in 2005, we also will be allocating corporate and other expenses to each of the segments, rather than segregating these costs on a standalone basis. The new segments are Oil & Water Technologies, Gas Technologies and Automation & Controls.

The Oil & Water Technologies group includes our traditional oil and gas separation and dehydration equipment sales and related services, our extensive North American branch distribution network, and our worldwide engineered systems group, all of which are focused primarily on oil and water production and processing systems.

The Gas Technologies group includes our CO_2 membrane business, the assets and operating relationship related to our gas processing facilities in West Texas, H_2S removal technologies including Shell Paques and other gas-related technologies that focus on removing contaminants from the gas stream.

The Automation & Controls group remains unchanged, focusing on sales of new control panels and systems which monitor and control oil and gas production, as well as field service activities including repair, maintenance, testing and inspection services for existing systems.

As a result of these changes and others, we expect to benefit from greater efficiencies and revenue growth while immediately pursuing cost reduction initiatives designed to reduce expenses by at least $10 million over the next 12-18 months, half of which are expected to be realized in 2005. These initiatives include:

The strategic repositioning of our UK-based subsidiary, Axsia part of the Oil & Water Technologies group following the restructuring and efficiency gains due to better integration of Axsia s engineering capabilities with those of NATCO s Houston-based engineering group. Approximately 50 positions have been eliminated from the Axsia organization through the end of the first quarter as part of this effort. As a result, we expect to be better positioned to service expanding markets in Russia, the Middle East, Latin America, Africa and Asia.

Rationalization of our manufacturing assets and North American branch network both part of the Oil & Water Technologies group following the restructuring. Manufacturing efficiencies will be achieved at our primary manufacturing facilities and elsewhere through the application of lean management techniques designed to eliminate excess manufacturing capacity, increase capacity utilization and improve productivity.

A reduction in operating expenses within the branch network will be accomplished through higher field personnel utilization rates and a general reduction of overhead costs. Additionally, we expect to achieve revenue enhancements from greater product pull through and the identification of new customer market sales opportunities.

A reduction in operating, interest and general and administrative expenses arising from improved procurement practices, inventory management, overhead reductions and working capital discipline.

Table of Contents

Critical Accounting Policies

The preparation of our consolidated financial statements requires us to make certain estimates and assumptions that affect the results reported in our condensed consolidated financial statements and accompanying notes. These estimates and assumptions are based on historical experience and on our future expectations that we believe to be reasonable under the circumstances. Note 2 to the consolidated financial statements filed in our Annual Report on Form 10-K/A for the year ended December 31, 2004, contains a summary of our significant accounting policies. We believe the following accounting policies are the most critical in the preparation of our condensed consolidated financial statements:

Revenue Recognition: Percentage-of-Completion Method. We recognize revenues from significant contracts (greater than $250,000 and longer than four months in duration) and certain automation and control systems contracts and orders on the percentage-of-completion method of accounting. Earned revenue is based on the percentage that costs incurred to date relate to total estimated costs of the project, after giving effect to the most recent estimates of total cost. The timing of costs incurred, and therefore recognition of revenue, could be affected by various internal or external factors including, but not limited to: changes in project scope (change orders), changes in productivity, scheduling, the cost and availability of labor, the cost and availability of raw materials, the weather, client delays in providing approvals at benchmark stages of the project and the timing of deliveries from third-party providers of key components. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known. Earned revenues reflect the original contract price adjusted for agreed claims and change order revenues, if applicable. Losses expected to be incurred on the jobs in progress, after consideration of estimated probable minimum recoveries from claims and change orders, are charged to income as soon as such losses are known. Claims for additional contract revenue are recognized if it is probable that the claim will result in additional revenue and the amount can be reliably estimated. We generally recognize revenue and earnings to which the percentage-of-completion method applies over a period of two to six quarters. In the event a project is terminated by the customer before completion, our customer is liable for costs incurred under the contract. We believe that our operating results should be evaluated over a term of several years to evaluate performance under long-term contracts, after all change orders, scope changes and cost recoveries have been negotiated and realized. We record revenues and profits on all other sales as shipments are made or services are performed.

Impairment Testing: Goodwill. As required by Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, we evaluate goodwill annually for impairment by comparing the fair value of operating assets to the carrying value of those assets, including any related goodwill. As required by SFAS No. 142, we identify separate reportable units for purposes of this evaluation. In determining carrying value, we segregate assets and liabilities that, to the extent possible, are clearly identifiable by specific reportable unit. Certain corporate and other assets and liabilities, that are not clearly identifiable by specific reportable unit, are allocated in accordance with the standard. Fair value is determined by discounting projected future cash flows at our cost of capital rate, as calculated. The fair value is then compared to the carrying value of the reportable unit to determine whether or not impairment has occurred at the reportable unit level. In the event an impairment is indicated, an additional test is performed whereby an implied fair value of goodwill is determined through an allocation of the fair value to the reporting unit s assets and liabilities, whether recognized or unrecognized, in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, Business Combinations. Any residual fair value after this purchase price allocation would be assumed to relate to goodwill. If the carrying value of the goodwill exceeded the residual fair value, we would record an impairment charge for that amount. Net goodwill was $80.6 million at March 31, 2005. The modest decrease in the value of goodwill for the three months ended March 31, 2005 related entirely to currency exchange rate fluctuations.

In accordance with SFAS No. 142, the Company tested each business segment for impairment of goodwill at December 31, 2004, and, based upon the results of this testing, management determined that goodwill was not impaired. The Company will test each business segment for goodwill impairment annually, as required by the pronouncement, or more frequently if there are indications of goodwill impairment. No additional testing was performed during the quarter ended March 31, 2005, as management noted no indications of goodwill impairment.

Deferred Income Tax Assets: Valuation Allowance. We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires us to provide a valuation allowance for any net deferred income tax assets we believe may not be utilized through future operations. We have a $258,000 valuation allowance related to the realizability of certain US tax attributes related to Axsia, a valuation allowance of $2.6 million related to Axsia s UK operations, and another $199,000 related to other foreign operations. Based upon the level of historical taxable income and projected future taxable income over the periods to which our deferred tax assets are deductible in the US tax jurisdiction, we believe it is more likely than not we will realize the benefits of these deductible differences and carryforwards, net of the existing valuation allowances at March 31, 2005, in the US tax jurisdiction. However, the amount of the deferred tax asset considered realizable, and thus the amount of these valuation allowances, could change if future taxable income differs from our projections in the US tax jurisdiction. In our foreign tax jurisdictions we are not relying on projections of future taxable income to determine the realizability of our deductible differences and carryforwards.

Table of Contents

Recent Accounting Pronouncements

In April 2004, the FASB issued SFAS No. 129-1, Disclosure Requirements under FASB Statement No. 129, Disclosure of Information about Capital Structure, Relating to Contingently Convertible Securities. This statement confirmed that SFAS No. 129 applied to all contingently convertible securities and requires the Company to explain all pertinent rights and privileges of these contingently convertible securities including conversion or exercise prices, rates, pertinent data, sinking-fund requirements, unusual voting rights and significant terms of contracts to issue additional shares. This statement became effective on April 9, 2004 and was adopted by the Company with no material impact on financial condition or results of operation.

In May 2004, the FASB issued FSP FAS No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This pronouncement requires the Company to determine whether or not the benefit provided is actuarially equivalent to the Medicare prescription drug-benefit. If the benefit provided is actuarially equivalent and the subsidy is deemed a significant event, the Company is required to account for the federal subsidy attributable to past services as an actuarial gain under SFAS No. 106 and to reduce the accumulated post-retirement benefit obligation. For the portion of the federal subsidy attributable to current or future service, the Company is required to reduce net periodic post-retirement benefit cost while the employee provides the service. This pronouncement became effective for interim or annual reporting periods beginning after June 15, 2004. The Company adopted this pronouncement on June 30, 2004. The required disclosures have been incorporated into Note 13, Pension and Other Postretirement Benefits, of the notes to our Consolidated Financial Statements reported in our Annual Report on Form 10-K/A for the year ended December 31, 2004.

In December 2004, FASB issued SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS 123R). This amendment requires expensing of stock options and other share-based payments and supercedes SFAS No. 123 which allowed companies to choose between expensing stock options or showing proforma disclosure only. This standard is effective for the Company as of January 1, 2006 and will apply to all awards granted modified, cancelled or repurchased after that date as well as unvested portion of prior awards. The Company will adopt the standard as of the effective date. The Company expects to record additional compensation expense at that time.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company has not completed the assessment of the impact, if any, that SFAS No. 151 will have on results of operations, financial position or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets , which amends APB Opinion No. 29. The guidance in APB 29, Accounting for Nonmonetary Transactions , is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The amendment made by SFAS No. 153 eliminates the exception for exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of the statement are effective for exchanges taking place in fiscal periods beginning after June 15, 2005. The Company will adopt the standard as of the effective date and believes it will not have a material impact on the Company s results of operations, financial position or cash flows.

In December 2004, the FASB issued FASB Staff Position No. 109-1 (FSP 109-1), *Application of FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109) to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004*, which provides guidance on the recently enacted American Jobs Creation Act of 2004 (the Jobs Creation Act). The Jobs Creation Act provides a tax deduction for income from qualified domestic production activities. FSP 109-1 provides for the treatment of the deduction as a special deduction as described in SFAS No. 109. As such, the deduction will have no effect on existing deferred tax assets and liabilities. The impact of the deduction is to be reported in the period in which the deduction is claimed on our US tax return. We do not expect that this deduction will have a significant impact on our effective tax rate in current or future years. FSP 109-1 became effective as of January 1, 2005.

In December 2004, the FASB issued FASB Staff Position No. 109-2 (FSP 109-2), *Accounting and Disclosure Guidance for the Foreign Repatriation Provision within the American Jobs Creation Act of 2004,* which provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Jobs Creation Act on a company s income tax expense and deferred tax liability. FSP 109-2 states that a company is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Creation Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying

SFAS No. 109. We have not yet decided on whether, and to what extent, we might elect to repatriate foreign earnings under the provisions in the Jobs Creation Act. Any such repatriation under the Jobs Creation Act must occur by December 31, 2005. Accordingly, our consolidated financial statements do not reflect a provision for taxes related to this election. The maximum amount we could elect to repatriate at this time is approximately $1.0 million. Our evaluation of the effect if the election is made is expected to be completed by the end of the second quarter of 2005.

In March 2005, the FASB issued FASB Interpretation No. (FIN) 47, Accounting for Conditional Asset Retirement Obligations. FIN 47 clarifies that the term conditional asset retirement obligation, as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The Company will adopt the standard as of the effective date and does not expect the adoption of FIN 47 to have a material effect on the Company s financial position or results of operations for the year ended December 31, 2005.

Industry and Business Environment

As a leading provider of wellhead process equipment, systems and services used in the production of crude oil and natural gas, our revenues and results of operations are closely tied to demand for oil and gas products and spending by oil and gas companies for exploration and development of oil and gas reserves. These companies generally invest more in exploration and development efforts during periods of favorable oil and gas commodity prices, and invest less during periods of unfavorable oil and gas prices. As supply and demand change, commodity prices fluctuate, producing cyclical trends in the industry. During periods of lower demand, revenues for service providers such as NATCO generally decline, as existing projects are completed, new projects are postponed and pricing decreases due to competitive pressures. During periods of recovery, revenues for service providers can lag behind the industry due to the timing of new project awards.

Historically, we have viewed operating rig counts as a benchmark of spending in the US oil and gas industry for exploration and development efforts. Our standard equipment sales and services business generally correlates to changes in rig activity, but tends to lag behind the North American rig count trend. From a longer-term perspective, the US Department of Energy projects that US demand for and consumption of petroleum and natural gas products will increase through 2025, with higher consumption rates expected worldwide, driven by demand for refined products and the use of natural gas to power plants that generate electricity. As demand grows and reserves in the United States decline, producers and service providers in the oil and gas industry may continue to rely more heavily on global sources of energy and expansion into new markets. The industry continues to seek more innovative and technologically efficient means to extract hydrocarbons from existing fields, as production profiles change. As a result, additional and more complex equipment may be required to produce oil and gas from these fields, especially since many new oil and gas fields produce lower quality or contaminated hydrocarbon streams, requiring more complex production equipment. In general, these trends should increase the demand for our products and services. The following table summarizes the prices of domestic crude oil per barrel and the wellhead prices of natural gas per thousand cubic feet (mcf) for the three months ended March 31, 2005 and 2004, as well as averages for the years ended December 31, 2004 and 2003, derived from published reports by the U.S. Department of Energy, and the rotary rig count, as published by Baker Hughes Incorporated.

	Three Months Ended March 31,		**Year Ended December 31,**	
	2005	**2004**	**2004**	**2003**
Average price of crude oil per barrel in the U.S.	$ 49.78	$ 35.26	$ 41.47	$ 27.56

Average wellhead price of natural gas per mcf in the U.S.	$ 6.94	$ 5.22	$ 5.50	$ 4.97
Average U.S. rig count	1,279	1,119	1,190	1,030

At March 31, 2005, the spot price of West Texas Intermediate crude oil was $54.19 per barrel and the price of Henry Hub natural gas was $7.47 per million British thermal units, or mmbtu, per the Dow Jones Energy Service. These spot prices reflect the overall volatility of oil and gas commodity prices in the current and recent years. At March 31, 2005, the US rig count was 1,306 per Baker Hughes Incorporated.

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

Certain segment amounts previously reported for the three months ended March 31, 2004 have been reclassified to conform to the presentation of segment amounts reported for the three months ended March 31, 2005.

Table of Contents

Results of Operations

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004 (unaudited)

Revenues. Revenues of $88.7 million for the three months ended March 31, 2005 increased $16.7 million, or 23%, from $72.0 million for the three months ended March 31, 2004. The following table summarizes revenues by business segment for the three-month periods ended March 31, 2005 and 2004, respectively.

	Three Months Ended March 31,			
	2005	2004	Change	Percentage Change
	(unaudited) (in thousands, except percentage change)			
Oil & Water Technologies	$ 67,005	$ 54,575	$ 12,430	23%
Gas Technologies	7,897	6,824	1,073	16%
Automation & Controls	15,152	11,618	3,534	30%
Eliminations	(1,398)	(1,033)	(365)	35%
Total	$ 88,656	$ 71,984	$ 16,672	23%

Oil & Water Technologies revenues increased $12.4 million, or 23%, for the three months ended March 31, 2005, compared to the three months ended March 31, 2004, due to increased exploration and development activity in the North American oil and gas industry. The average number of operating rotary rigs in the U.S. increased from 1,119 for the first quarter of 2004 to 1,279 for the first quarter of 2005, with Canadian rig counts increasing from an average of 513 to 521. This increase in activity contributed to improved sales of our traditional and standard equipment and services, as well as our parts and services. This was partially offset by a decrease in revenue from our built-to-order projects. Inter-segment revenues for this business segment were $291,000 for the three months ended March 31, 2005, compared to $229,000 for the three months ended March 31, 2004.

Revenues of $7.9 million for the quarter ended March 31, 2005 for the Gas Technologies segment increased $1.1 million, or 16%, compared to $6.8 million for the three months ended March 31, 2004. This increase was primarily due to increased membrane sales and increased throughput at our West Texas gas processing facility. There were no inter-segment revenues for this business segment for the three months ended March 31, 2005.

Revenues for the Automation & Controls segment increased $3.5 million, or 30%, for the three months ended March 31, 2005, compared to the three months ended March 31, 2004. Activity levels for the first quarter of 2005 improved due to increased level of activity in the Gulf of Mexico and growth in international sales for this business segment. Inter-segment sales increased from $804,000 for the three months ended March 31, 2004 to $1.1 million for the three months ended March 31, 2005.

The change in revenues for Eliminations represents the elimination of inter-segment revenues discussed above.

Gross Profit. Gross profit for the three months ended March 31, 2005 increased $4.5 million, or 27%, to $21.3 million, compared to $16.8 million for the three months ended March 31, 2004. As a percentage of revenue, gross profit increased to 24% for the quarter ended March 31, 2005 from 23% for the quarter ended March 31, 2004. The following table summarizes gross profit by business segment for the periods indicated:

	Three Months Ended March 31,			
	2005	**2004**	**Change**	**Percentage Change**
	(unaudited) (in thousands, except percentage change)			
Oil & Water Technologies	$ 12,845	$ 11,268	$ 1,577	14%
Gas Technologies	5,117	3,999	1,118	28%
Automation & Controls	3,323	1,548	1,775	115%
Total	$ 21,285	$ 16,815	$ 4,470	27%

Gross profit for the Oil & Water Technologies segment increased $1.6 million, or 14%, for the three months ended March 31, 2005, compared to the three months ended March 31, 2004, primarily due to a 23% increase in revenues between the respective periods, but decreased as a percentage of revenue due to changes in product mix and lower manufacturing and engineering cost absorption. As a percentage of revenue, gross margins were 19% and 21% for the three-month periods ended March 31, 2005 and 2004, respectively.

Gross profit for the Gas Technologies segment for the three months ended March 31, 2005 increased $1.1 million, or 28%, compared to the three months ended March 31, 2004, due to a 16% increase in revenues between the respective periods primarily associated with our gas processing operations and membrane sales. Gross margin as a percentage of revenues for Gas Technologies was 65% and 59% for the three-month periods ended March 31, 2005 and 2004, respectively.

Gross profit for the Automation & Controls segment increased $1.8 million, or 115%, for the three months ended March 31, 2005 compared to the three months ended March 31, 2004, due to a 30% increase in revenues for the segment during the 2005 period and a decrease in production expenses. Gross margin as a percentage of revenue for the three months ended March 31, 2005 and 2004, was 22% and 13%, respectively.

Selling, General and Administrative Expense. Selling, general and administrative expense of $14.2 million for the three months ended March 31, 2005, increased $895,000, or 7%, compared to the three months ended March 31, 2004. This increase in expense relates primarily to higher employee medical costs, professional fees and incentive compensation based on operating results, partially offset by the gain on the sale of a UK facility of $388,000. Overall headcount increased from 1,633 employees at March 31, 2004 to 1,675 employees at March 31, 2005.

Depreciation and Amortization Expense. Depreciation and amortization expense of $1.3 million for the three months ended March 31, 2005, decreased $51,000, or 4%, compared to the results for the three months ended March 31, 2004.

Write-off of Unamortized Loan Costs. We recorded a write-off of unamortized loan costs of $667,000 in March 2004 related to the retirement of our 2001 term loan and revolving credit facilities.

Interest Cost on Postretirement Benefit Liability. Interest cost on postretirement liability of $210,000 for the three months ended March 31, 2005 decreased $15,000, or 7%, compared to the three months ended March 31, 2004, due to the impact of changes to the Medicare laws enacted by the U.S. Congress in December 2003.

Other, net. Other, net was a gain of $38,000 for the three months ended March 31, 2005, related primarily to net realized and unrealized foreign exchange transaction gains, partially offset by $204,000 of expense related to the change in valuation of the outstanding warrants to purchase our common stock. Other, net was a loss of $454,000 for the three months ended March 31, 2004 related primarily to net realized and unrealized foreign exchange transaction losses.

Provision for Income Taxes. Income tax expense for the three months ended March 31, 2005 was $1.8 million compared to a tax benefit of $29,000 for the three months ended March 31, 2004. The change in tax expense was attributable to an increase in pre-tax income of $4.7 million for the three months ended March 31, 2005 from a loss of $73,000 for the three months ended March 31, 2004. The effective tax rate was 38% and 39% for the three-month periods ended March 31, 2005 and 2004, respectively.

Liquidity and Capital Resources

As of March 31, 2005, we had cash and working capital of $1.3 million and $44.8 million, respectively, as compared to cash and working capital of $2.2 million and $40.1 million, respectively, at December 31, 2004.

Net cash provided by operating activities for the three months ended March 31, 2005 was $1.5 million, compared to $424,000 used for the three months ended March 31, 2004. The increase in cash provided by operating activities is related to the increase in net income and a decrease in inventories, partially offset by an increase in accounts receivable, due to higher revenues caused by increased business activities and a decrease in accounts payable.

Net cash provided by investing activities for the three months ended March 31, 2005 was $82,000, which included $880,000 of capital expenditures, offset by $962,000 in proceeds from the sale of certain operating assets. For the three months ended March 31, 2004, cash used in investing activities was $779,000 and related primarily to capital expenditures.

Net cash used in financing activities for the three months ended March 31, 2005 was $2.5 million. The primary use of funds for these financing activities was long-term debt repayments of $1.6 million and a reduction of bank overdrafts of $2.8 million partially offset by $1.6 million of proceeds from the exercise of stock options by employees and former employees. For the three months ended March 31, 2004, the primary source of funds for financing activities was borrowings of $45.0 million under our 2004 term loan and revolving credit facilities, used to retire borrowings under our 2001 term loan and revolving credit facilities, including net repayments of $10.1 million under revolving credit arrangements and $30.8 million under the term loan portion of the related agreement. In addition, we incurred $105,000 of deferred financing fees associated with an amendment to the 2004 term loan and revolving credit facilities.

We maintain revolving credit and term loan facilities, as well as a working capital facility for export sales. Our prior term loan, in effect during 2003 and most of the first quarter of 2004, provided an initial $50.0 million of borrowings and the revolving credit facilities provided for up to $30.0 million of borrowings in the United States, up to $10.0 million of borrowings in Canada and up to $10.0 million of borrowings in the United Kingdom, subject to borrowing base limitations. The term loan was to mature on March 31, 2006, and each of the revolving facilities was to mature on March 31, 2004. These facilities were entered into in 2001, and we refer to these facilities as the 2001 term loan and revolving credit facilities.

On March 15, 2004, we replaced our 2001 term loan and revolving credit facilities with a term loan and revolving credit arrangement that provides for a term loan of $45.0 million and a revolving credit facility providing for aggregate additional borrowings of $35.0 million, comprised of a US revolving facility with a borrowing capacity of $20.0 million, a Canadian revolving facility with a borrowing capacity of $5.0 million, and a UK revolving credit facility with a borrowing capacity of $10.0 million. All of the borrowing capacities under the 2004 revolving credit facilities are subject to borrowing base limitations.

The 2004 term loan and revolving facilities require quarterly payments of $1.6 million, beginning in June 2004, and mature on March 15, 2007. We borrowed funds under the 2004 term loan and revolving credit facilities to retire debt outstanding under the 2001 term loan and revolving credit facilities as of March 15, 2004.

We recorded a charge of $667,000 in March 2004 to expense unamortized loan costs related to our 2001 term loan and revolving credit facilities, and incurred an additional $995,000 of deferred loan costs related to the 2004 term loan and revolving credit facilities, which will be amortized as interest expense through maturity of the facilities in March 2007. We also incurred approximately $105,000 of deferred loan costs associated with an amendment to the 2004 term loan and revolving credit facilities. This additional cost will be amortized through the term of the amendment.

The 2004 term loan and revolving facilities agreement provides for interest at a rate based upon the ratio of Funded Debt to EBITDA, as defined in the credit facility (EBITDA), and ranging from, at our election, (1) a high of the London Interbank Offered Rate, or LIBOR, plus 2.75% to a low of LIBOR plus 2.00% or (2) a high of a base rate plus 1.75% to a low of a base rate plus 1.00%. We will pay commitment fees related to this agreement on the undrawn portion of the facility, depending upon the ratio of Funded Debt to EBITDA, which were calculated at 0.50% as of March 31, 2005.

We had borrowings of $38.6 million outstanding under the term loan portion of the 2004 term loan and revolving credit facilities at March 31, 2005, which bore interest at 5.38% to 5.94%. Borrowings outstanding under the revolving credit portion of the 2004 term loan and revolving credit facility at March 31, 2005 were $5.0 million at interest rates of 5.48% to 6.25%. We had letters of credit outstanding under the 2004 revolving credit facilities of $18.7 million at March 31, 2005. Availability under our 2004 revolving credit facilities is reduced by the amount of our outstanding letters of credit and loans. Fees related to these letters of credit at March 31, 2005 were approximately 2.50% of the outstanding balance. These letters of credit support contract performance and warranties and expire at various dates through February 2008.

We and our operating subsidiaries guarantee our 2004 term loan and revolving facilities agreement, which is secured by a first lien or first priority security interest in or pledge of substantially all of the assets of the borrowers and certain subsidiaries, including accounts receivable, inventory, equipment, intangibles, equity interests in US subsidiaries, 66-1/3% of the equity interest in active, non-US subsidiaries and interests in certain contracts. Our assets and our active US subsidiaries secure the US, Canadian and UK revolving facilities, assets of our Canadian subsidiary also secure the Canadian facility and assets of our UK subsidiaries also secure the UK facility. The US facility is guaranteed by each of our US subsidiaries, while the Canadian and UK facilities are guaranteed by us, each of our US subsidiaries and the Canadian subsidiary or the UK subsidiaries, as applicable.

We paid commitment fees of 0.50% for the quarter ended March 31, 2005 on the undrawn portion of the 2004 term loan and revolving credit facilities.

The 2004 term loan and revolving facilities agreement contains restrictive covenants including, among others, those that limit the amount of Funded Debt to EBITDA, impose a minimum fixed charge coverage ratio and a minimum net worth requirement. We were in compliance with all restrictive debt covenants in our loan agreements as of March 31, 2005. In March 2005, the Company s lenders approved the amendment of various provisions of the 2004 term loan and revolving facilities effective January 1, 2005. This amendment revised certain restrictive debt covenants, modified certain defined terms and changes the submission of financial statements to the lenders to more closely reflect the SEC requirements for furnishing financial information.

On July 23, 2004, the Company and two of its subsidiaries entered into an international revolving credit agreement with Wells Fargo HSBC Trade Bank, N.A. providing for loans of up to $10 million, subject to borrowing base limitations. This working capital facility for export sales is secured by specific project inventory and receivables, as well as certain other inventory, accounts receivable and equipment, and is partially guaranteed by the US Export-Import Bank. Loans under this facility mature on March 31, 2007, and bear interest at either (1) a Base Rate, as defined in the agreement, less 0.25% or (2) the London Interbank Offered Rate (LIBOR) plus 2.00%, at the Company s election. This facility replaced a similar export sales credit facility that terminated on July 23, 2004. Letters of credit outstanding under this facility as of March 31, 2005 were $5.2 million. This facility had fees related to letters of credit of approximately 1.00% of the outstanding balance for the period January 1, 2005 to March 31, 2005.

23

Table of Contents

At March 31, 2005, available borrowing capacity under the 2004 term loan and revolving credit agreement and the export sales credit agreement were $13.8 million and $8.7 million, respectively. Although no assurances can be given, we believe that our operating cash flow, supported by our borrowing capacity, will be adequate to fund operations for at least the next twelve months. Should we decide to pursue acquisition opportunities, the determination of our ability to finance these acquisitions will be a critical element of the analysis of the opportunities.

We had unsecured letters of credit and bonds totaling $382,000 and guarantees totaling $23.4 million at March 31, 2005.

On March 25, 2003, we issued 15,000 shares of Series B Convertible Preferred Stock (Series B Preferred Shares), and warrants to purchase 248,800 shares of our common stock, to Lime Rock Partners II, L.P., a private investment fund, for an aggregate price of $15.0 million. Approximately $99,000 of the aggregate purchase price was allocated to the warrants. Proceeds from the issuance of these securities, net of related issuance costs of $679,000, were used to reduce our outstanding revolving debt balances and for other general corporate purposes.

Each of the Series B Preferred Shares has a face value of $1,000 and pays a cumulative dividend of 10% per annum of face value, which is payable semi-annually on June 15 and December 15 of each year, except the initial dividend payment which was payable on July 1, 2003. Each of the Series B Preferred Shares is convertible, at the option of the holder, into (1) a number of shares of common stock equal to the face value of such Series B Preferred Share divided by the conversion price, which was $7.805 (or an aggregate of 1,921,845 shares) at March 31, 2005, and (2) a cash payment equal to the amount of dividends on such share that have accrued since the prior semi-annual dividend payment date. As of March 31, 2005, we had accrued dividends payable of $375,000 related to the Series B Preferred Shares.

In the event of a change in control, as defined in the certificate of designations for the Series B Preferred Shares, each holder of the Series B Preferred Shares has the right to convert the Series B Preferred Shares into common stock or to cause the Company to redeem for cash some or all of the Series B Preferred Shares at an aggregate redemption price equal to the greater of (1) the sum of (a) $1,000 (adjusted for stock splits, stock dividends, etc.) multiplied by the number of shares to be redeemed, plus (b) an amount (not less than zero) equal to the product of $500 (adjusted for stock splits, stock dividends, etc.) multiplied by the aggregate number of Series B Preferred Shares to be redeemed less the sum of the aggregate amount of dividends paid in cash since the issuance date, plus any gain on the related stock warrants, and (2) the aggregate face value of the Series B Preferred Shares plus the aggregate amount of dividends that have accrued on such shares since the last dividend payment date. If the holder of the Series B Preferred Shares converts upon a change in control occurring on or before March 25, 2006, the holder would also be entitled to receive cash in an amount equal to the dividends that would have accrued through March 25, 2006 less the sum of the aggregate amount of dividends paid in cash through the date of conversion, and the aggregate amount of dividends accrued in prior periods but not yet paid.

We have the right to redeem the Series B Preferred Shares for cash on or after March 25, 2008, at a redemption price per share equal to the face value of the Series B Preferred Shares plus the amount of dividends that have been accrued but not paid since the most recent semi-annual dividend payment date.

Due to the cash redemption features upon a change in control as described above, the Series B Preferred Shares do not qualify for permanent equity treatment in accordance with the Emerging Issues Task Force Topic D-98: Classification and Measurement of Redeemable Securities, which specifically requires that permanent equity treatment be precluded for any security with redemption features that are not solely within the control of the issuer. Therefore, we have accounted for the Series B Preferred Shares as temporary equity in the accompanying balance sheet, and have not assigned any value to our right to redeem the Series B Preferred Shares on or after March 25, 2008.

If the Series B Preferred Shares are redeemed under contingent redemption features, any redemption amount greater than carrying value would be recorded as a reduction of income available to common shareholders when the event becomes probable.

If we were to fail to pay dividends for two consecutive periods or any redemption price due with respect to the Series B Preferred Shares for a period of 60 days following the payment date, we would be in default under the terms of such shares. During a default period, (1) the dividend rate on the Series B Preferred Shares would increase to 10.25%, (2) the holders of the Series B Preferred Shares would have the right to elect or appoint a second director to the Board of Directors and (3) we would be restricted from paying dividends on, or redeeming or acquiring our common or other outstanding stock, with limited exceptions. If we were to fail to set aside or make payments in cash of any redemption price due with respect to the Series B Preferred Shares, and the holders elect, our right to redeem the shares may be terminated.

The warrants issued to Lime Rock Partners II, L.P. have an exercise price of $10.00 per share of common stock and expire on

Table of Contents

March 25, 2006. We can force the exercise of the warrants if our common stock trades above $13.50 per share for 30 consecutive days. The warrants contain a provision whereby the holder could require us to make a net-cash settlement for the warrants in the case of a change in control. The warrants were deemed to be derivative instruments and, therefore, the warrants were recorded at fair value as of the issuance date. Fair value, as agreed with the counter-party to the agreement, was calculated by applying a pricing model that included subjective assumptions for stock volatility, expected term that the warrants would be outstanding, a dividend rate of zero and an overall liquidity factor. The resulting liability, originally recorded at $99,000, was recorded at $400,000 as of March 31, 2005, from $196,000 at December 31, 2004 reflecting the change in the fair value of the warrants. The Company recorded an expense of $204,000 for the quarter ended March 31, 2005 and a gain of $33,000 for the quarter ended March 31, 2004. Similarly, changes in fair value in future periods will be recorded in net income during the period of the change.

Our sales backlog at March 31, 2005 was $92.7 million, compared to $96.0 million at March 31, 2004. Backlog increased $6.8 million for the Oil & Water Technologies segment, reflecting an increase in oilfield activity in 2005 compared to 2004. Backlog decreased $7.8 million for the Automation & Control segment, reflecting the completion of major projects building control panels for a customer in Kazakhstan. Gas Technologies backlog decreased by $2.3 million.

Item 3. ***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. The majority of our foreign currency transactions relate to operations in Canada and the U.K. In Canada, most contracts are denominated in Canadian dollars, and most of the costs incurred are in Canadian dollars, which mitigates risks associated with currency fluctuations. In the U.K., many of our sales contracts and material purchases are denominated in a currency other than British pounds sterling, primarily U.S. dollars and euros, whereas our engineering and overhead costs are principally denominated in British pounds sterling. Consequently, we have currency risk in our U.K. operations. We attempt to minimize our exposure to foreign currency exchange rate risk by requiring settlement in our functional currencies, when possible. However, we do not currently enter into forward contracts or other currency-related derivative hedge arrangements.

The warrants issued to the holders of our Series B Preferred Shares provide for a net-cash settlement in the event of a change in control, as defined in the warrants. Consequently, we use derivative accounting to record the warrant transaction. The liability representing the fair value of this derivative arrangement was recorded at $99,000 as of the date of issuance, March 25, 2003, and was adjusted to $400,000 as of March 31, 2005, to reflect the change in fair value of the warrants during the period. A cumulative loss of $301,000 has been recorded related to these warrants since issuance, including a loss of $204,000 recorded for the three months ended March 31, 2005. Fair value, as agreed with the counter-party to the agreement, was based on a pricing model that included subjective assumptions concerning the volatility of our common stock, the expected term that the warrants would be outstanding, an expected dividend rate of zero and an overall liquidity factor. At each reporting date, the liability will be adjusted to current fair value, with any changes in fair value reported in earnings during the period of change. As such, we may be exposed to certain income fluctuations based upon changes in the fair market value of this liability due to changes in the price of our common stock, as well as other factors.

Our financial instruments are subject to changes in interest rates, including our revolving credit and term loan facilities and our working capital facility for export sales. At March 31, 2005, we had borrowings of $38.6 million outstanding under the term loan portion of the 2004 term loan and revolving credit facilities, at interest rates of 5.38% and 5.94%. We had borrowings of $5.0 million outstanding under the revolving credit portion of these facilities at March 31, 2005, at an interest rate of 5.48% to 6.25%. Borrowings under the long-term arrangement secured by our Magnolia manufacturing facility totaled $1.2 million and accrued interest at 6.02%.

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, a 100 basis point increase in interest rates under our variable interest rate facilities would decrease our current quarter net income by $69,000 and decrease our cash flow from operations by $112,000. In the event of an adverse change in interest rates, we could take action to mitigate our exposure. However, due 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.

Table of Contents

Item 4. ***Controls and Procedures***

Controls and Procedures

Members of our management team, including our Chief Executive Officer and our Chief Financial Officer, have reviewed our disclosure controls and procedures, as defined by the Securities and Exchange Commission in Rule 13a-15(e) of the Securities Exchange Act of 1934, as of March 31, 2005, in an effort to evaluate the effectiveness of the design and operation of these controls. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There have been no significant changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and, following the changes in our internal controls implemented prior to this quarter, the Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2005.

PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

The only pending legal proceeding involving NATCO or one of its subsidiaries that management currently believes to be material is the Jose Corona Matter. The following provides an update to the discussion in our Form 10-K/A.

Jose Corona, Individually and as Personal Representative of the Estate of Noe Corona, Sr., et al. v. NATCO Group Inc. and Jaime Liendo, 381st Judicial District Court, Starr County, Texas (Cause No. DC-04-175). This lawsuit, filed in 2004, arose from a 2003 automobile accident involving an employee of one of our subsidiaries and Noe Corona, Sr., who died from injuries sustained in the accident. The original filing did not specify damages. Mediation was conducted on March 30, 2005, with no success. Plaintiffs amended the filing on April 15, 2005 to plead damages of up to $30 million related to mental anguish, grief, bereavement, loss of society, companionship, damage to the familial relationship, and loss of care, counseling, and guidance allegedly suffered by six surviving adult children, as well as funeral and medical expenses and pain and suffering of Noe Corona. Trial of this matter is set for June 6, 2005, in Rio Grande City, Texas. The Company denies any liability for the accident and intends to vigorously defend this matter.

The Company and its subsidiaries are defendants or otherwise involved in a number of other legal proceedings in the ordinary course of business. While the Company insures against the risk of these proceedings, including the Corona matter, to the extent deemed prudent by management, NATCO can 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 business activities. While the Company cannot predict the outcome of any legal proceedings with certainty, in the opinion of management, ultimate liability with respect to these pending lawsuits, including the Corona matter, is not expected to have a significant or material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

Item 6. ***Exhibits***

Index of Exhibits

Exhibit No.	Description
10.1	NATCO Group Inc. 2005 Incentive Bonus Plan
31.1	Certification of Chief Executive Officer of NATCO Group Inc. pursuant to 15 U.S.C. §7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer of NATCO Group Inc. pursuant to 15 U.S.C. §7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer of NATCO Group Inc. pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirements 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.

	NATCO Group Inc.	
Date: May 10, 2005	By:	/s/ John U. Clarke
	Name:	John U. Clarke Chairman of the Board and Chief Executive Officer
Date: May 10, 2005	By:	/s/ Richard W. FitzGerald
	Name:	Richard W. FitzGerald Senior Vice President and Chief Financial Officer

27

Table of Contents

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