

NORTH AMERICAN GALVANIZING & COATINGS INC  
Form 10-K  
March 30, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 1-3920

NORTH AMERICAN GALVANIZING & COATINGS, INC.  
(FORMERLY KINARK CORPORATION)  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of incorporation or organization)

71-0268502  
(I.R.S. Employer Identification No.)

2250 EAST 73RD STREET, TULSA, OKLAHOMA 74136-6832  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code  
(918) 494-0964

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$.10 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [ ] No [X]

The aggregate market value of Common Stock held by non-affiliates on March 30, 2004 was approximately \$7.5 million. As of March 30, 2004, there were 6,794,293 shares of North American Galvanizing & Coatings, Inc. Common Stock \$.10 par value outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed not later than 120 days after the end of the fiscal year covered by this report are incorporated by reference in Part III.

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NORTH AMERICAN GALVANIZING & COATINGS, INC.

Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
For the Fiscal Year Ended December 31, 2003

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FORWARD LOOKING STATEMENTS OR INFORMATION

Certain statements in this Annual Report in Form 10-K, including information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", constitute "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. Such statements are typically punctuated by words or phrases such as "anticipates," "estimate," "should," "may," "management believes," and words or phrases of similar import. The Company cautions investors that such forward-looking statements included in this Form 10-K, or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, reports to the Company's stockholders and other publicly available statements issued or released by the Company involve significant risks, uncertainties, and other factors which could cause the Company's actual results, performance (financial or operating) or achievements to differ materially from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences could include, but are not limited to, changes in demand, prices, and the raw materials cost of zinc; changes in economic conditions of the various markets the Company serves, as well as the other risks detailed herein and in the Company's reports filed with the Securities and Exchange Commission. The Company believes that the important factors set forth in the Company's cautionary statements at Exhibit 99 to Form 10-K could cause such a material difference to occur and investors are referred to Exhibit 99 for such cautionary statements.

PART I

AVAILABLE INFORMATION

We make available through our Internet website at [www.nagalv.com](http://www.nagalv.com), our Statements of Beneficial Ownership of Securities Forms 3, 4 and 5 for Directors and Officers of the Company, filed with the Securities and Exchange Commission. We have also posted on our website our (1) Corporate Governance Guidelines; (2) Code of Business Conduct and Ethics and, (3) the Company's charters for the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee.

ITEM 1. BUSINESS

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At the Company's Annual Meeting held May 14, 2003, stockholders approved an amendment of the Company's certificate of incorporation to change the Company's name from Kinark Corporation to North American Galvanizing & Coatings, Inc., effective July 1, 2003. The former Kinark Corporation was incorporated under the laws of the state of Delaware in 1955. The Company's corporate headquarters are located in Tulsa, Oklahoma. As used in this report, except where otherwise stated or indicated by the context, "North American Galvanizing", the "Company" and the "Registrant" means North American Galvanizing & Coatings, Inc. and its consolidated subsidiary.

North American Galvanizing is a manufacturing services holding company currently conducting business in galvanizing and coatings through its wholly-owned subsidiary, North American Galvanizing Company and its wholly-owned subsidiaries ("NAG"). Formed in 1996, NAG merged with Rogers Galvanizing Company ("Rogers") in 1996 and Boyles Galvanizing Company ("Boyles") in 1997, with NAG as the surviving company. Rogers was acquired by the Company in 1996 and Boyles was acquired in 1969.

### GALVANIZING

The Company conducts galvanizing and coating operations through its NAG subsidiary. NAG is principally engaged in hot dip galvanizing of metal products and components fabricated by its customers. All of NAG's revenue is generated from the value-added galvanizing and coating of its customer's products. NAG galvanizes iron and steel products by immersing them in molten zinc. This bonding process produces an alloyed metal surface that provides an effective barrier ("cathodic protection") against oxidation and corrosion from exposure to the elements, for up to 50 years. Additional coating services provided by NAG include sandblasting, quenching, metalizing (flame sprayed), centrifuge spinner galvanizing, Corrocote Classic II painting and INFRASHIELDSM Coating.

The galvanizing process provides effective corrosion protection of fabricated steel which is used in numerous markets such as petrochemical, highway and transportation, energy, utilities, communications, irrigation, pulp and paper, waste water treatment, food processing, recreation and the manufacture of original equipment. In a typical year, NAG will galvanize in excess of 300,000,000 (approximately 263,000,000 in 2003) pounds of steel products for approximately 1,800 customers nationwide. Based on the number of its operating plants, NAG is one of the

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largest merchant market hot dip galvanizing companies in the United States. Revenues and income (loss) from continuing operations for the three years ended December 31, 2003 are presented herein on page FS-18, Consolidated Statements of Operations and Comprehensive Income.

NAG operates ten galvanizing plants in six states. These strategically located plants enable NAG to compete effectively by providing galvanizing to manufacturers representing a broad range of basic industries throughout the mid and south-central United States, and beyond. Its galvanizing plants are located in Tulsa, Oklahoma; Kansas City, Missouri; St. Louis, Missouri; Nashville, Tennessee; Louisville, Kentucky; Denver, Colorado; Hurst, Texas; and Houston, Texas.

In June 2003, NAG wrote-off its investment in the formerly idled Cunningham galvanizing plant located in Houston, Texas as a discontinued operation.

In January 2003, NAG expanded services at its Nashville, Tennessee facility with the installation of a centrifuge spinner line to galvanize small product and threaded materials.

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In the fourth quarter of 2002, NAG began operations at its newest galvanizing plant in St. Louis, Missouri. This state-of-the-art facility features a 51-foot kettle, providing the largest galvanizing capacity in the St. Louis region.

In the third quarter of 2002, NAG introduced INFRASHIELDSM coating, a specialty multi-part polymer coating system designed to be applied over hot dip galvanized material. The resultant superior corrosion protection offered by combining cathodic protection with a non-conductive coating is applicable to many environments that have unique corrosion issues.

In 2001, the Company completed a major expansion of its galvanizing operations with the construction of a new galvanizing plant in Houston, Texas. This state-of-the-art facility includes a 62-foot galvanizing kettle with capabilities to process extra large poles for the wireless communication and electric transmission markets. The new facility became operational in the first quarter of 2001.

Zinc, the primary raw material and largest cost component in the Company's galvanizing process, is a widely available commodity in the open market. The London Metal Exchange price of zinc for three month delivery was \$.34 per pound at the beginning of 2003. During 2003, there was relatively little movement in the price of zinc through the first eight months, followed by gradual increases to close the year at \$.46 per pound. In an attempt to minimize the potential risk associated with zinc price fluctuations, the Company periodically enters into forward purchase commitments for up to one year.

NAG ten largest customers, on a combined basis, accounted for approximately 33% of the Company's consolidated sales in 2003, compared with 34% in 2002. The backlog of orders at NAG is generally nominal due to the short turn-around time requirement demanded in the galvanizing industry.

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Hot dip galvanizing is highly competitive. NAG competes with other publicly and privately owned independent galvanizing companies, captive galvanizing facilities operated by manufacturers, and alternative forms of corrosion protection such as paint. The type and number of competitors vary throughout the geographic areas in which NAG does business. Competition is driven primarily by price, rapid turn-around service time, and the quality of the finished galvanized product. Management believes that the broad geographic disbursement of its galvanizing plants and the reliable quality of its service enables NAG to compete on a favorable basis. The Company continues to develop and implement operating and market strategies to maintain its competitive position and to develop new markets, as demonstrated by the recent opening of new galvanizing plants in Houston and St. Louis, as well as expanded service capabilities at its existing plants.

NAG's business is not generally considered to be seasonal due to the breadth and diversity of markets served, although revenues typically are lower in the first and fourth quarters due to seasonality in certain construction markets. In line with its historical pattern, NAG generated 50% of its revenues during the first six-months of 2003, compared with 51% in the first six-months of 2002.

The Company's facilities are subject to extensive environmental legislation and regulation affecting their operations and the discharge of wastes. The cost of compliance with such regulations was approximately \$1,061,000 and \$1,168,000 in 2003 and 2002, respectively, for the disposal and recycling of wastes generated by the galvanizing operations. In 1997, NAG was named a potentially responsible party by the Illinois Environmental Protection Agency ("IEPA") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co. The IEPA notice included NAG and a number of other organizations which arranged for the

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treatment and disposal of hazardous substances at Sandoval. Based on current information, NAG's share of any probable future costs cannot be estimated at this time.

NAG's one-year labor agreement with the United Steel Workers Union covering production workers at its Tulsa galvanizing plants originally expired March 31, 2003. In October 2003, the union employees ratified a new three-year labor agreement, effective November 1, 2003. The new agreement re-defines eligibility for payment of over-time, requires employee contributions for family coverage under the Company's group medical insurance program and grandfathers vacation benefits for certain long-term employees. Nation-wide, NAG employed 318 persons at December 31, 2003, compared to 364 persons at the end of 2002.

### ITEM 2. PROPERTIES

NAG operates hot dip galvanizing plants located in Oklahoma, Missouri, Texas, Colorado, Tennessee and Kentucky. Two of the plants are leased under terms which gives NAG the option to extend the lease for up to 15 years. NAG's galvanizing plants average 20,000 square feet in size, with the largest approximately 55,000 square feet, and it operates zinc kettles ranging in length from 33 to 62 feet.

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The Company's headquarters office is located in Tulsa, Oklahoma, in approximately 4,100 square feet of office space leased through December, 2005.

### ITEM 3. LEGAL PROCEEDINGS

In December 2003, the Company's liability insurance provider reached agreement with a plaintiff to settle an outstanding claim filed in 2002 in which NAG was named a defending party resulting from the personal injury of an independent contractor at one of its facilities. At December 31, 2003, the Company was not a party to, nor is any of its property subject to, any material legal proceedings, other than routine litigation incidental to the business.

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

No matters were submitted to a vote of stockholders during the fourth quarter of 2003.

### EXECUTIVE OFFICERS OF THE REGISTRANT

PAUL R. CHASTAIN	69	Vice President and Chief Financial Officer since February 1996, and Secretary of the Company since January 2000 to present. From July 1993 through January 1996, President and Chief Executive Officer of the Company. From June 1991- July 1993, Chairman and Chief Executive Officer. Co-Chairman and Co-Chief Executive Officer of the Company from June 1990-June 1991. From 1976, Executive Vice President and Treasurer. From 1973 through 1976, Vice President of Finance and Secretary of the Company. Director of the Company since 1975.
RONALD J. EVANS	54	President of the Company since February 1996 and appointed Chief Executive Officer November 1999 to present. From May 1995 through January 1996, private investor. From 1989-1995, Vice President-General Manager of Deltech Corporation. Mr. Evans' previous experience includes 13 years with Hoechst Celanese Corporation. Director of the Company since 1995.

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Pursuant to the bylaws of the Company, the executive officers are appointed annually by the Board of Directors, and shall hold office until their successors are chosen.

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### PART II

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

##### STOCK INFORMATION

The principal trading market for the common stock of North American Galvanizing & Coatings, Inc. is the American Stock Exchange. The Company's common stock trades under the symbol "NGA". The Company does not pay a dividend and expects to continue that policy in order to reinvest earnings to support and expand its business operations. The Company's board of directors may review the dividend policy in the future, recognizing that dividends may be a desirable form of return on the investment made by many of its stockholders. Stockholders of record at April 1, 2004 numbered approximately 1,950, excluding an estimated 500 stockholder accounts held in street name.

##### QUARTERLY STOCK PRICES

	FIRST	SECOND	THIRD	FOURTH
2003-High	\$1.64	\$1.58	\$1.45	\$1.83
Low	\$1.46	\$1.20	\$1.10	\$1.16
2002-High	\$1.34	\$1.70	\$1.75	\$1.65
Low	\$0.93	\$0.96	\$1.20	\$1.30

#### ITEM 6. SELECTED FINANCIAL DATA

The selected financial data for years 1999 through 2003 are presented on page FS-35 of this Annual Report on Form 10-K.

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

The index to Management's Discussion and Analysis of Financial Condition and Results of Operations is presented on page 15 of this Annual Report on Form 10-K.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management's discussion of quantitative and qualitative disclosures about market risk is presented on page FS-13.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The index to Financial Statements and Supplementary Data is presented on page 15 of this annual Report on Form 10-K.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements with the Company's independent accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope.

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### ITEM 9A. CONTROLS AND PROCEDURES

The certifying officers of the Company are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have (i) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiary, is made known to them by others within those entities, particularly during the period in which this annual report is being prepared; and (ii) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"). Based on this evaluation, the chief executive officer and the chief financial officer of the Company have concluded that the Company's disclosure controls and procedures were effective during the period being reported on in this annual report.

The Company's certifying officers have indicated that there were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation, including any significant deficiencies or material weaknesses that would require corrective actions.

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### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the headings "Election of Directors," "Board of Directors and Committees" and "Company Information Available on Website" in the Company's Proxy Statement (the "2004 Proxy Statement") for its annual meeting of stockholders to be held on May 14, 2004 (subject to the Company's ability to mail the 2004 proxy statement on or about April 19, 2004) is incorporated by reference.

Information about our Executive Officers may be found in Part I, Item 4A of this Form 10-K under the heading "Executive Officers of the Registrant" in accordance with Instruction 3 of Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K.

#### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item appears in the 2004 Proxy Statement under the headings "Executive Compensation," "Stock Option Grants in Fiscal Year 2003," "Options Exercised in Fiscal Year 2003 and Fiscal Year End Values," "Director's Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" and is incorporated by



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reference. Information regarding the Company's stock option plans appears herein on page FS-30, Footnotes to Consolidated Financial Statements.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item concerning security ownership of certain beneficial owners and management appears in the 2004 Proxy Statement under the heading "Security Ownership of Principal Stockholders and Management" and is incorporated by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item concerning certain relationships and related party transactions appears in the 2004 Proxy Statement under the heading "Related Party Transactions" and is incorporated by reference.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item are incorporated herein by reference from the 2004 Proxy Statement under the captions "Audit Committee Report" and "Ratification of Appointment of Independent Accountants."

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## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:

(1) FINANCIAL STATEMENTS	PAGE
Independent Auditors' Report	FS-16
Consolidated Balance Sheets at December 31, 2003 and 2002	FS-17
Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2003, 2002 and 2001	FS-18
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001	FS-19
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001	FS-20
Notes to Consolidated Financial Statements	FS-21
(2) FINANCIAL STATEMENT SCHEDULES:	
Schedule II - Valuation and Qualifying Accounts	13

All schedules omitted are inapplicable or the information required is included in either the consolidated financial statements or the related notes to the consolidated financial statements.

(3) EXHIBITS:

The Exhibits filed with or incorporated by reference into this report are listed in the following Index to Exhibits.

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## EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
3.1	Restated Certificate of Incorporation of Kinark Corporation, as amended on June 6, 1996 (incorporated by reference to Exhibit 3.1 of the Company's Pre-Effective Amendment No. 1 to Registration Statement on Form S-3, Registration No. 333-4937, filed with the Commission on June 7, 1996).
3.2	Amended and Restated Bylaws of Kinark Corporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated March 31, 1996).
10.1	Credit Agreement, dated September 24, 1999, between Kinark Corporation, a Delaware corporation, and Bank One, Oklahoma, N.A., National Association, a national banking association.
21.	Subsidiaries of the Registrant.
23.	Independent Auditors' Consent.
24.01	Power of attorney from Linwood J. Bundy.
24.02	Power of attorney from Ronald J. Evans.
24.03	Power of attorney from Gilbert L. Klemann, II.
24.04	Power of attorney from Patrick J. Lynch.
24.05	Power of attorney from Joseph J. Morrow.
24.06	Power of attorney from John H. Sununu.
31.	Certifications pursuant to Section 302 of the Sarbanes, Oxley Act of 2002.
32.	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99	Cautionary Statements by the Company Regarding Forward Looking Statements.
99	Amendment Three to Amended and Restated Credit Agreement, September 26, 2003.

### (B) REPORTS ON FORM 8-K.

The Company filed one (1) Form 8-K Current Report during the quarter ended December 31, 2003: November 6, 2003 - Announcement of Third Quarter 2003 Sales and Earnings Results

## SCHEDULE II

NORTH AMERICAN GALVANIZING & COATINGS, INC.  
VALUATION AND QUALIFYING ACCOUNTS

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YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

Description	Balance at beginning of year	Additions charged to costs and expenses	Deductions	Balance at end of year
-----				
Allowance for doubtful receivables (deducted from accounts receivable)				
2003	\$ 285,000	\$ 190,000	\$ 136,000	\$ 339,000
2002	\$ 293,000	\$ 184,000	\$ 192,000	\$ 285,000
2001	\$ 321,000	\$ 110,000	\$ 138,000	\$ 293,000
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## SIGNATURES

Pursuant to the requirements of Section 13 and 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, as duly authorized.

NORTH AMERICAN GALVANIZING  
& COATINGS, INC.  
(Registrant)

Date: March 26, 2004

By: /s/Paul R. Chastain

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Paul R. Chastain  
Vice President and  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 26, 2004, by the following persons on behalf of the Registrant and in the capacities indicated.

/s/Joseph J. Morrow\*

/s/Patrick J. Lynch\*

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Joseph J. Morrow, Non-Executive  
Chairman of the Board

-----  
Patrick J. Lynch, Director

/s/Ronald J. Evans\*

/s/John H. Sununu\*

-----  
Ronald J. Evans, President and  
Chief Executive Officer (Principal  
Executive Officer), and Director

-----  
John H. Sununu, Director

/s/Paul R. Chastain

/s/Gilbert L. Klemann, II\*

-----  
Paul R. Chastain, Vice President,

-----  
Gilbert L. Klemann, II, Director

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Chief Financial Officer, Secretary &  
Director (Principal Financial and  
Accounting Officer)

/s/Linwood J. Bundy\*

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Linwood J. Bundy, Director

\*Paul R. Chastain, by signing his name hereto, does hereby sign this Annual Report on Form 10-K on behalf of each of the directors and officers of the Registrant after whose typed names asterisks appear pursuant to powers of attorney duly executed by such directors and officers and filed with the Securities and Exchange Commission as exhibits to this report.

By: /s/ Paul R. Chastain

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Paul R. Chastain, Attorney-in-fact

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INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS,  
CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

GENERAL

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North American Galvanizing is a leading provider of corrosion protection for iron and steel components fabricated by its customers. Based on the number of its operating plants, the Company is one of the largest merchant market hot dip galvanizing companies in the United States. Hot dip galvanizing is the process of applying a zinc coating to fabricated iron or steel material by immersing the material in a bath consisting primarily of molten zinc.

The Company's galvanizing plants offer a broad line of services including centrifuge galvanizing for small threaded products, sandblasting, chromate quenching, polymeric coatings, and proprietary INFRASHIELDSM Coating Application Systems for polyurethane protective linings and coatings over galvanized surfaces. The Company's structural and chemical engineers provide customized assistance with initial fabrication design, project estimates and steel chemistry selection.

The Company's galvanizing and coating operations are managed through two regions with ten (10) facilities located in Colorado, Kentucky, Missouri, Oklahoma, Tennessee and Texas. These facilities operate galvanizing kettles ranging in length from 30 feet to 62 feet, and have lifting capacities ranging from 12,000 pounds to 40,000 pounds.

The Company maintains a sales and service network coupled with its galvanizing plants, supplemented by national account business development at the corporate level. In a typical year, the Company will galvanize in excess of 300,000,000 pounds of steel products for approximately 1,800 customers nationwide.

All of the Company's sales are generated for domestic customers whose end markets are principally in the United States. The Company markets its galvanizing and coating services directly to its customers and does not utilize agents or distributors. Although hot dip galvanizing is considered a mature service industry, the Company is actively engaged in developing new markets through participation in industry trade shows, metals trade associations and presentation of technical seminars by its national marketing service team.

Hot dip galvanizing provides metals corrosion protection for many product applications used in commercial, construction and industrial markets. The Company's galvanizing can be found in almost every major application and industry that requires corrosion protection where iron or steel is used, including the following end user markets:

- o highway and transportation,
- o power transmission and distribution,
- o wireless and telecommunications,
- o utilities,
- o petrochemical processing,
- o infrastructure including buildings, airports, bridges and power generation

FS-1

- o industrial grating,
- o wastewater treatment; fresh water storage and transportation
- o pulp and paper,
- o pipe and tube,
- o food processing,
- o agricultural (irrigation systems)
- o recreation (boat trailers, marine docks, stadium scaffolds)
- o original equipment manufactured products, including general fabrication

As a value-added service provider, the Company's revenues are directly influenced by the level of economic activity in the various end markets that it serves. Economic activity in those markets that results in the expansion and/or

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upgrading of physical facilities (i.e., construction) may involve a time-lag factor of several months before translating into a demand for galvanizing fabricated components. Despite the inherent seasonality associated with large project construction work, the Company maintains a relatively stable revenue stream throughout the year by offering fabricators, large and small, reliable and rapid turn-around service. The Company records revenues when the galvanizing and customer billing processes are completed. The Company generates all of its operating cash from such revenues, and utilizes a line of credit secured by the underlying accounts receivable and zinc inventory to facilitate working capital needs.

Each of the Company's galvanizing plants operate in a highly competitive environment underscored by pricing pressures, primarily from other public and privately-owned galvanizers and alternative forms of corrosion protection, such as paint. The Company's long-term response to these challenges has been a sustained strategy focusing on providing a reliable quality of galvanizing to industry ASTM specifications and rapid turn-around time on every project, large and small. Key to the success of this strategy is the Company's continuing commitment and long-term record of reinvesting earnings to upgrade its galvanizing facilities and provide technical innovations to improve production efficiencies; and to construct new facilities when market conditions present opportunities for growth. The Company is addressing long-term opportunities to expand its galvanizing and coatings business through programs to increase industry awareness of the proven, unique benefits of galvanizing for metals corrosion protection. Each of the Company's independently operated galvanizing plants is linked to a centralized control system involving sales order entry, facility maintenance and operating procedures, quality assurance, purchasing and credit and accounting that enable the plant to focus on providing galvanizing and coating services in the most cost-effective manner.

The principal raw materials essential to the Company's galvanizing and coating operations are zinc and various chemicals which are normally available for purchase in the open market.

### KEY INDICATORS

Key industries which historically have provided the Company some indication of the potential demand for galvanizing in the near-term, (i.e., primarily within a year) include highway and transportation, power transmission and distribution, telecommunications and the level of quoting activity for regional metal fabricators. In general, growth in the commercial/industrial sectors of the economy generates new construction and capital spending which ultimately impacts the demand for galvanizing.

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Key operating measures utilized by the Company include new orders, zinc inventory, tons of steel galvanized, revenue, pounds and labor costs per hour, zinc usage related to tonnage galvanized, and lost-time safety performance. These measures are reported and analyzed on various cycles, including daily, weekly and monthly.

The Company utilizes a number of key financial measures to evaluate the operations at each of its galvanizing plants, to identify trends and variables impacting operating productivity and current and future business results, which include: sales, gross profit, fixed and variable costs, selling and general administrative expenses, operating cash flows, capital expenditures, interest expense, and a number of ratios such as profit from operations and accounts receivable turnover. These measures are reviewed by the Company's operating and executive management monthly, or more frequently, and compared to prior periods, the current business plan and to standard performance criteria, as applicable.

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## RESULTS OF OPERATIONS

The following table shows the Company's results of operations:

(DOLLARS IN THOUSANDS)	YEARS ENDED DECEMBER 31			
	2003		2002	
	AMOUNT	%OF SALES	AMOUNT	%OF SALES
Sales	\$ 33,200	100.0%	\$ 38,178	100.0%
Cost of sales	23,833	71.8%	26,208	68.7%
Gross profit	9,367	28.2%	11,970	31.3%
Selling, general & administrative expenses	5,992	18.0%	5,904	15.5%
Depreciation and amortization	2,880	8.7%	3,028	7.9%
Operating income	495	1.5%	3,038	7.9%
Interest expense, net	654	2.0%	872	2.3%
Other expense	--	--	--	--
Income (loss) from continuing operations before income taxes	(159)	(0.5%)	2,166	5.6%
Income taxes	23	--	851	2.2%
Income (loss) from continuing operations before effect of discontinued operations	(182)	(0.5%)	1,315	3.4%
Income (loss) from discontinued operations	(831)	2.5%	(205)	(0.5%)
Net Income (Loss)	\$ (1,013)	(3.0%)	\$ 1,110	2.9%

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In 2003, the Company's galvanizing and coatings operations, its sole line of business, experienced a 13% decline in sales revenue compared to the prior year, due to the weak economy impacting construction and fabrication activity requiring galvanizing. As a result, the Company operated at or near break-even for most of the year. The slow-down in construction activity that began to impact the demand for galvanized steel in mid-2002 continued throughout 2003. The Company expects this condition will extend into the first half of 2004, due to the wide-spread weakness in capital spending in a number of its major market sectors.

**KEY DEVELOPMENTS.** During the period 2001 through 2003, the Company reported a number of developments supporting its strategic program to reposition its galvanizing business in the national market.

The Company's new St. Louis galvanizing plant completed its first full year of operations in 2003 with a 71% increase in tonnage over the smaller plant that it replaced. This larger, new facility is providing NAG a strategic base for extending its geographic area of service. A 51-foot kettle at this new facility

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provides the largest galvanizing capacity in the St. Louis region.

In January 2003, the Company expanded services at its Nashville galvanizing plant with the announced installation of a state-of-the-art Spinner line to galvanize small products, including bolts and threaded material.

As reported previously, the Company wrote-off its investment in the formerly idled Houston-Cunningham galvanizing plant in the second quarter ended June 30, 2003. The write-off resulted in a net loss on the abandoned assets of \$754,000, net of taxes of \$443,000 in 2003. The net loss from operations for the Cunningham plant was \$77,000 and \$205,000, net of taxes of \$45,000 and \$133,000, for the years ended December 31, 2003 and 2002, respectively. The abandoned Cunningham plant has been classified as a discontinued operation and its expenses are not included in the results of continuing operations discussed below.

In the third quarter of 2002, the Company announced the introduction of INFRASHIELDSM Coating, a specialty polymer coating system that is designed to be applied over hot dip galvanized material slated for harsh operating conditions. The INFRASHIELDSM coating technology results in superior corrosion protection by combining cathodic protection with a non-conductive coating.

In the first quarter of 2001, NAG began operations at its newly-constructed galvanizing facility in Houston, Texas. The Fairbanks plant -- approximately 55,000 square feet under roof -- features a state-of-the-art galvanizing process line, with 40,000 pound lifting capacity supporting a massive 62-foot zinc dipping kettle. The plant started operations supported by a multi-year contract to galvanize large wireless communication and electric transmission poles for a major company. In addition to conventional hot dip galvanizing, the Fairbanks plant offers its customers grit blasting and etching for pre-paint coatings, polymeric coating and INFRASHIELDSM coating application systems in a dedicated facility at this same site.

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### 2003 COMPARED TO 2002

**SALES.** Sales for the year ended December 31, 2003 were \$33,200,000, down 13% from sales of \$38,178,000 posted for 2002. In 2003, the lower demand for galvanizing due to weaknesses in the economy adversely impacted NAG's operations. Total production volume decreased 17% from the record tonnage NAG achieved in 2002. This lower volume resulted in a sales decrease of \$6,500,000, which was partially offset by a \$1,500,000 increase in sales attributed to product mix. In addition to competing with a number of galvanizing companies in each of its market areas, NAG experienced a continuation of competitive pressure on selling prices due to the weak market conditions. Production volume at the Company's galvanizing facilities varied significantly by region in 2003, with the weakness in some industrial markets still impacting small and medium-sized fabricators. Over the course of 2003, the Company lowered its operating break-even cost structure and as the capital goods spending segment of the economy recovers, the resultant demand for galvanizing should gradually be reflected in higher sales and improved operating results.

**GROSS PROFIT.** Gross profit of \$9,367,000 for 2003 declined \$2,603,000 or 21.7% from last year. Gross profit as a percentage of sales declined to 28.2% from 31.3% in 2002. Gross profit margins declined primarily because of lower sales in 2003 and higher costs for labor, natural gas and insurance for liability and workers compensation. During 2003, NAG countered declining sales with a number of cost containment measures, including reductions in personnel. As a result of these measures, cost of sales as a percent of sales was held to 71.8% in 2003 compared with 68.6% for the previous year. In 2003, significantly higher market



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prices resulted in a 39% increase in NAG's cost of natural gas, compared to 2002. NAG does not expect any measurable abatement in the average price it will have to pay for natural gas in 2004. For the second consecutive year, the Company experienced higher premiums for liability and workers compensation insurance, which increased approximately 21% in 2003. The Company has realigned its insurance program and expects these costs will not increase in 2004.

DEPRECIATION EXPENSE. Depreciation expense decreased \$148,000 for 2003 to \$2,880,000 compared with \$3,028,000 in 2002. The decrease for 2003 primarily relates to lower production volume as the unit of production method for depreciation is utilized by the Company in its new galvanizing plants.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES. SG&A increased \$88,000, or 1.5%, in 2003 to \$5,992,000. The increase in SG&A is due primarily to the incremental costs of higher premiums for insurance of \$74,000, increased travel and recruiting of \$44,000, and an increase in legal and professional services of \$190,000, which were partially offset by reductions in administrative salaries and marketing activities of \$215,000. The Company anticipates insurance costs will stabilize in 2004 but travel expenses are expected to increase in support of the Company's sales and marketing programs. In addition to sales and service support teams assigned to each of its regional galvanizing plants, NAG is committing corporate-level marketing resources to expand and develop new national account business.

INTEREST EXPENSE. Interest expense decreased to \$654,000 in 2003 from \$872,000 in 2002, reflecting lower average borrowings for working capital and lower average interest rates on variable rate debt. During the two-year period 2002 through 2003, the interest rate on the Company's variable rate debt decreased from 6.75% to 4.25% as a result of changes in the

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prime rate. The Company's average outstanding borrowings for 2003 were \$17,622,000 compared to \$18,135,000 for 2002. Interest expense also decreased due to interest rebates of \$354,000 in 2003 on the Company's industrial revenue bonds. In September 2003, the Company amended the bond agreement to more nearly reflect the interest rate earned by the bondholders. The amendment provides that the bond trustee will evaluate the interest account at the end of each calendar quarter and refund the excess amount determined, if any, and rebate such excess to the Company. The Company does not expect to receive future interest rebates comparable to those received in 2003. The Company's interest expense for 2003 was not impacted by inflation.

INCOME FROM CONTINUING OPERATIONS. In 2003, the Company reported a loss of \$159,000 from continuing operations before income taxes, reflecting a decline of approximately \$5,000,000, or 13%, in sales from 2002 when the Company produced a record tonnage volume and reported income of \$2,166,000 from continuing operations before income taxes.

INCOME TAXES. The Company's effective income tax rates, including taxes related to discontinued operations in 2003, for 2003 and 2002 were 31.5% and 39.3%, respectively. The rate for 2003 differed from federal statutory rate primarily due to state income taxes and adjustments to the estimate of the deferred tax asset accounts. The rate for 2002 differed primarily due to state income taxes.

DISCONTINUED OPERATIONS. In 2002, the Board of Directors authorized the Company to pursue alternative uses for the Houston-Cunningham plant, which was temporarily idled in late 2001. Management believed the carrying value of the plant and the related galvanizing assets would be realized through future operations of the plant. Accordingly, no write-down was recognized in 2002. However, in late April 2003, new events, combined with a further contraction of

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the galvanizing business in the Houston market, resulted in the likely inability to maintain the plant as part of the Company's continuing operations. As a result, the Company wrote-off its investment in the formerly idled Houston-Cunningham galvanizing plant in the second quarter ended June 30, 2003 as discontinued operations. The write-off resulted in a net loss on the abandoned assets of \$754,000, net of taxes of \$443,000. The net loss from operations for the Cunningham plant was \$77,000 and \$205,000, net of taxes of \$45,000 and \$133,000 for 2003 and 2002, respectively; in 2001, the Cunningham plant reported net income \$47,000, net of taxes of \$34,000.

NET INCOME (LOSS). For 2003, the Company reported a net loss of \$1,013,000 compared net income of \$1,110,000 last year. The loss per share for 2003 was \$.15 per share compared to diluted earnings of \$.15 per share in 2002.

### 2002 COMPARED TO 2001

SALES. In 2002, total sales from NAG's multi-plant galvanizing business increased for the second consecutive year. Sales of \$38,178,000 rose 2.6%, or \$959,000, over comparable sales of \$37,219,000 in 2001, based on record tonnage up 4.4% from the prior year. In its second full year of operation, tonnage production at NAG's newest and largest facility in Houston increased 52% over 2001, led by galvanizing of tubular steel structures for the communications and utility markets. Despite intense competition from other galvanizers in 2002's uncertain economy, NAG's planned marketing and sales efforts achieved a stable average selling price per ton, only

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slightly below the level reported for 2001. The impact on sales from these slightly lower prices in 2002 was significantly offset by the record tonnage. During 2002, fabricators' demand for galvanizing showed a pattern quite similar to the prior year, with galvanizing sales for the first nine months of 2002 up 4.2%, followed by a sales decline of 2.4% in the fourth quarter, compared to the same periods in 2001.

GROSS PROFIT. Gross profit of \$11,970,000 for 2002 increased \$1,458,000 or 13.9% compared with 2001. The gross profit margin on sales rose to 31.4% compared to 30.0% in 2001, due primarily to increased sales volume and a lower cost of zinc, the principal material used in galvanizing. Cost of sales for 2002 of \$26,208,000 increased 6.9% from cost of sales of \$24,527,000 in 2001, reflecting an 8.9% increase in 2002 sales over the prior year. Cost of sales as a percent of sales was 68.6% in 2002 compared 70.0% in 2001. Also, nominal improvements in productivity, resulting from efficient usage of zinc and increased tonnage throughput per man-hour, favorably impacted the gross profit margin.

DEPRECIATION AND AMORTIZATION EXPENSE. Depreciation expense of \$3,028,000 in 2002 decreased \$153,000 from \$3,181,000 in 2001. The decrease was primarily due to the adoption on January 1, 2002 of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which no longer requires amortization of goodwill. Under this standard, goodwill must be reviewed at least annually for impairment. In 2001, the Company recorded goodwill amortization of \$188,000.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES. SG&A expenses increased \$563,000 or 10.5% to \$5,904,000 for 2002 compared with \$5,341,000 for 2001. The increase in SG&A expenses was the result of increased sales and marketing expense for revenue growth plans, higher premiums for property and liability insurance, and increased incentive awards for achieving plan targets.

OTHER EXPENSE. Other expense in 2001 of \$258,000 resulted from losses incurred on two commodity collar contracts which were intended to hedge the price risk

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associated with fixed price zinc purchase commitments. The Company did not apply hedge accounting to these contracts. The contracts expired in 2001 and were not replaced.

**INTEREST EXPENSE.** Interest expense decreased 33.7% or \$443,000 to \$872,000 from \$1,315,000 in 2001. The decrease resulted from lower average borrowings, lower average interest rates on variable rate debt and an interest refund on the Company's industrial revenue bonds. For 2002, the Company's average outstanding borrowings were \$18,135,000 compared to \$18,743 in 2001. During the two-year period 2001 through 2002, the interest rate on the Company's variable rate debt decreased from 9.75% to 6.25% as a result of changes in the prime rate. Interest expense also decreased \$200,000 in 2002 due to an interest rebate on the Company's industrial revenue bonds. The Company's interest expense for 2002 was not impacted by inflation.

**INCOME FROM CONTINUING OPERATIONS.** In 2002, income from continuing operations before income taxes increased 419% or \$1,749,000 to \$2,166,000, reflecting increased sales, improvement in gross profit margins and lower interest expense, partially offset by higher selling, general and administrative costs.

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**INCOME TAXES.** The Company's effective income rates for 2002 and 2001 were 39.3% and 42.0%, respectively. The rates differed for 2002 and 2001 from federal statutory rates primarily due to state income taxes and non-deductible amortization of goodwill in 2001.

**DISCONTINUED OPERATIONS.** The net loss from the Company's discontinued Houston-Cunningham galvanizing operation for 2002 was \$205,000, net of taxes of \$133,000.

**NET INCOME.** The Company reported net income of \$1,110,000 for 2002 compared to net income of \$289,000 for 2001. Diluted earnings per share were \$.15 per share for 2003 compared to \$.04 per share in 2001.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flow from operations has consistently been adequate to fund its working capital and current facilities' capital spending requirements. During the three years ended December 31, 2003, operating cash flow has been the primary source of liquidity, supplemented by funds from issuance of a private placement of notes and a term loan to finance a new galvanizing plant. The Company monitors working capital and planned capital spending to assess liquidity and minimize cyclical cash flow.

The Company generated operating cash flow from continuing operations of \$3,131,000 in 2003, a decrease of 21% compared to operating cash flow of \$3,971,000 in 2002. Decreased cash flow from continuing operations in 2003 was due primarily to a net loss and increases in deferred taxes, partially offset by a decrease in working capital. In 2003, zinc inventory decreased \$746,000 reflecting utilization of start-up stock at the new galvanizing facility in St. Louis, Missouri. In 2003, discontinued operations provided cash flow of \$96,000. The Company anticipates that it will be able to satisfy cash requirements for its ongoing business operations for the foreseeable future with cash generated by operations and borrowings under its existing credit facilities.

For the first three quarters of 2003, the Company was in compliance with the financial covenants of its credit agreement with a bank. For the fourth quarter ended December 31, 2003, the Company's debt service and capital expenditures coverage ratios fell slightly below the levels permitted under the credit agreement, due to the lag in economic recovery with respect to demand for

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galvanizing. The Company obtained a waiver from the bank for these two events of non-compliance. Based on the Company's analysis and projections of operations and capital expenditure requirements, the Company expects to be in compliance with such covenants during 2004.

Operating cash flows were \$3,971,000 and \$4,397,000 in 2002 and 2001, respectively.

Decreased cash flow from continuing operations in 2002 resulted primarily from the increase in zinc inventory for a new galvanizing facility in St. Louis, Missouri, which was partially offset by an increase in net income. Discontinued operations provided cash flow of \$200,000 and \$246,000 in 2002 and 2001, respectively.

Cash of \$969,000 used in investing activities in 2003 consisted of \$68,000 for the purchase of investment securities and capital expenditures of \$901,000. Capital expenditures were \$5,880,000 in 2002 and \$3,297,000 in 2001. Capital expenditures in 2003 primarily focused on

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budgeted capital programs to upgrade existing galvanizing facilities and the Company expects capital expenditures in 2004 will be maintained at a comparable level. NAG completed construction of new galvanizing facilities in St. Louis, Missouri in 2002 and in Houston, Texas in 2001. The new Houston plant continues to rank first in tonnage and sales among all of NAG's plants.

In 2003, the Company's total debt (current and long-term obligations) decreased \$2,185,000 to \$16,415,000. Financing activities in 2003 included payments of \$618,000 to a bond sinking fund, net payments of \$1,800,000 on bank debt and other obligations and proceeds of \$233,000 from an advancing construction loan provided by a bank (See Note 3 to Consolidated Financial Statements) to complete construction of the new galvanizing plant in St. Louis. In 2003, the Company issued 46,218 shares of its common stock from treasury in lieu of cash for payment of board fees to its directors.

In 2002, the Company's total debt (current and long-term obligations) increased \$859,000 to \$18,600,000. Financing activities in 2002 included payments of \$587,000 to a bond sinking fund, net payments of \$1,321,000 on bank debt and other obligations and proceeds of \$2,767,000 from an advancing construction loan provided by a bank. In 2002, the Company issued 56,094 shares of its common stock from treasury in lieu of cash for payment of board fees to its directors.

In September 2003, the Company amended a three-year bank credit agreement that was scheduled to expire in June 2004 and extended its maturity to January 1, 2005. Subject to borrowing base limitations, the amended agreement provides (i) a \$7,000,000 maximum revolving credit facility for working capital and general corporate purposes, (ii) a \$1,911,924 term note and (iii) a \$2,833,332 advancing construction note.

Term note payments are based on a three-year amortization schedule with equal monthly payments of principal and interest, and the note may be prepaid without penalty. The revolving line of credit may be paid down without penalty, or additional funds may be borrowed up to the maximum line of credit. Payments on the advancing construction note are based on a 108-month amortization schedule, plus interest, that commenced March 1, 2003, and the note may be prepaid without penalty.

At December 31, 2003, \$8,147,000 was outstanding under the bank credit agreement, and \$400,000 was reserved for outstanding irrevocable letters of credit for workers' compensation insurance coverage. The Company's commitment to repay \$9,050,000 of tax-exempt adjustable rate industrial revenue bonds issued

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in 2000 is fully secured by an irrevocable letter of credit issued by Bank One, Oklahoma, N.A. in favor of Bank One Trust Company (See Note 4 to Consolidated Financial Statements). At December 31, 2003, the Company had additional borrowing capacity of \$1,712,000 net of outstanding letters of credit, under its revolving line of credit based on the borrowing base calculated under the agreement. The Company believes that its ability to continue to generate cash from operations and its bank credit facilities will provide adequate capital resources and liquidity to support operations and capital expenditures plans for 2004.

The Company has various commitments primarily related to long-term debt, industrial revenue bonds, operating lease commitments, zinc purchase commitments and vehicle

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operating leases. The Company's off-balance sheet contractual obligations at December 31, 2003, consist of \$2,106,000 for long-term operating leases for three galvanizing facilities and galvanizing equipment, \$381,000 of vehicle operating leases and \$1,401,000 for zinc purchase commitments. The various leases for galvanizing facilities, including option renewals, expire from 2015 to 2017. A lease for galvanizing equipment expires in 2007. The vehicle leases expire annually on various schedules through 2008. NAG periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its requirements for its hot dip galvanizing operations; commitments for the future delivery of zinc are typically up to one year.

The Company expects to fund these commitments with cash generated from operations and continuation of existing bank credit agreements as they mature. The Company's contractual obligations and commercial commitments as of December 31, 2003 are as follows (in thousands):

	PAYMENT DUE OR COMMITMENT EXPIRATION BY PER				
	TOTAL	2004	2005	2006	2007
Industrial revenue bonds	\$ 7,282	\$ 656	\$ 693	\$ 731	\$ 767
Long-term debt	8,176	1,409	6,749	1	1
Subordinated notes	1,000	--	--	1,000	--
Facilities operating leases	2,106	498	491	411	379
Vehicle operating leases	381	125	95	70	54
Zinc purchase commitments	1,401	1,401	--	--	--
	-----	-----	-----	-----	-----
Total contractual cash obligations	\$20,346	\$ 4,089	\$ 8,028	\$ 2,213	\$ 1,201
	=====	=====	=====	=====	=====
Other contingent commitments:					
Letters of credit*	\$ 7,682	\$ 1,056	\$ 693	\$ 731	\$ 767
Lines of credit	\$ 1,712	--	\$ 1,712	--	--

\*Amount includes letter of credit relating to debt outstanding under the

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industrial revenue bond agreement (See Note 4 to Consolidated Financial Statements).

### ENVIRONMENTAL MATTERS

The Company's facilities are subject to extensive environmental legislation and regulations affecting their operations and the discharge of wastes. The cost of compliance with such regulations was approximately \$1,061,000, \$1,168,000, and \$988,000 in 2003, 2002 and 2001, respectively, for the disposal and recycling of wastes generated by the galvanizing operations.

As previously reported, NAG was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was a potentially responsible party under the Comprehensive

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Environmental Response, Compensation, and Liability Information System ("CERCLIS") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co. The IEPA notice includes NAG as one of 59 organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. Based on current information and the preliminary state of investigation, NAG's share of any probable future costs cannot be estimated at this time.

The Company is committed to complying with all federal, state and local environmental laws and regulations and using its best management practices to anticipate and satisfy future requirements. As is typical in the galvanizing business, the Company will have additional environmental compliance costs associated with past, present, and future operations. Management is committed to discovering and eliminating environmental issues as they arise. Because of the frequent changes in environmental technology, laws and regulations management cannot reasonably quantify the Company's potential future costs in this area.

### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the reported amounts of assets and liabilities. The following areas are those that management believes are important to the financial statements because they require significant judgment and estimation.

**REVENUE RECOGNITION.** The Company generates revenue by providing galvanizing and other coating services to customers' products. Revenue is recognized when the galvanizing and customer billing processes are completed. Freight billed to customers is recorded as revenue.

**INVENTORIES.** Inventories are stated at the lower of cost (LIFO basis) or market. Since substantially all of the Company's inventory is raw zinc used in the galvanizing of customers' products, market value is based on an estimate of the value added to the cost of raw zinc as a result of the galvanizing service.

**SELF-INSURANCE RESERVES.** The reserves for the self-insured portion of workers compensation and health insurance coverage is based on historical data and current trends. Estimates for claims incurred and incurred but not reported claims are included in the reserves. These estimates may be subject to adjustment if the Company's actual claims are significantly different than its historical experience. The Company has obtained insurance coverage for medical claims exceeding \$60,000 and workers' compensation claims exceeding \$125,000 per occurrence, respectively, and has implemented safety training and other programs

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to reduce workplace accidents.

IMPAIRMENT OF LONG-LIVED ASSETS. The Company reviews long-lived assets for impairment using forecasts of future cash flows to be generated by those assets. These cash flow forecasts are based upon expected tonnage to be galvanized and the margin to be earned by providing that service to customers. These assumptions are susceptible to the actions of competitors and changes in economic conditions in the industries and geographic markets the Company serves.

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ENVIRONMENTAL. The Company expenses or capitalizes, where appropriate, environmental expenditures that relate to current operations as they are incurred. Such expenditures are expensed when they are attributable to past operations and are not expected to contribute to current or future revenue generation. The Company records liabilities when remediation or other environmental assessment or clean-up efforts are probable and the cost can be reasonably estimated.

GOODWILL IMPAIRMENT. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." The Company assessed initial impairment under the transition rules of SFAS 142 in the second quarter of 2002 and determined that goodwill was not impaired at January 1, 2002. Management selected May 31 as the date of its annual goodwill impairment test. Based upon the impairment test performed at May 31, 2003, management determined that goodwill was not impaired. This statement requires management to estimate the fair value of the Company's reporting units. The determination of fair value is dependent upon many factors including, but not limited to, management's estimate of future cash flows of the reporting units and discount rates. Any one of a number of future events could cause management to conclude that impairment indicators exist and that the carrying value of these assets will not be recovered.

### NEW ACCOUNTING STANDARDS

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this standard had no effect on the Company's consolidated financial position or results of operations.

In July 2002, FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." The statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when a liability is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this standard, in the first quarter of 2003, had no impact on the Company's consolidated financial position, results of operations or financial statement disclosures.

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In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also

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requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligations it has undertaken in issuing the guarantee. The interpretation had no material effect on the Company's consolidated financial statements upon adoption.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123, "Accounting for Stock Based Compensation" to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of this standard had no impact on the Company's consolidated financial position, results of operations or financial statement disclosures

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"). The adoption of this standard had no impact on the Company's consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities ("FIN 46"). This interpretation did not have a material impact on the Company's consolidated financial statements.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's operations include managing market risks related to changes in interest rates and zinc commodity prices.

**INTEREST RATE RISK.** The Company is exposed to financial market risk related to changes in interest rates. Changing interest rates will affect interest paid on the Company's variable rate debt. Variable rate debt aggregating \$8,147,000 and \$9,742,000 and was outstanding under the credit agreement at December 31, 2003 and 2002, respectively, with effective rates of 4.21% and 4.50%, respectively. Amounts outstanding under the industrial revenue bond agreement were \$7,282,000 and \$7,900,000 at December 31, 2003 and 2002, respectively, with an effective rate of 3.5% in 2003 and 5.25% in 2002 (see Note 4 to Consolidated Financial Statements). In addition, the Company's fixed rate debt consisting of \$1,000,000 of 10% subordinated promissory notes was outstanding at December 31, 2003. The borrowings under all of the Company's debt obligations at December 31, 2003 are due as follows: \$2,064,000 in 2004; \$7,442,000 in 2005; \$1,732,000 in 2006 and \$5,220,000 in years 2007 through 2013. Each increase of 10 basis points in the effective interest rate would result in an annual increase in interest charges on variable rate debt of approximately \$15,400 based on December 31, 2003 outstanding borrowings. The actual effect of changes in interest rates is dependent on actual amounts outstanding under the various loan agreements. The Company monitors interest rates and has sufficient flexibility to renegotiate the loan agreement, without penalty, in the event market conditions and interest rates change.

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ZINC PRICE RISK. NAG periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its zinc requirements for its hot dip galvanizing operations. Commitments for the future delivery of zinc, typically up to one (1) year, reflect rates quoted on the London Metals Exchange. At December 31, 2003 and 2002, the aggregate fixed price commitments for the procurement of zinc were approximately \$1,401,000 and \$4,000,000, respectively. With respect to the zinc fixed price purchase commitments, a hypothetical decrease of 10% in the market price of zinc from the December, 2003 and 2002 levels represented potential lost gross margin opportunities of approximately \$140,000 and \$400,000, respectively; however, lower zinc prices potentially could benefit future earnings for the zinc purchases that are made at the lower market price. During the third quarter of 2001, two one-year commodity collar contracts which were intended to hedge the price risk associated with fixed price zinc purchase commitments expired, and were not renewed.

The Company's financial strategy includes evaluating the selective use of derivative financial instruments to manage zinc and interest costs. As part of its inventory management strategy, the Company expects to continue evaluating hedging instruments to minimize the impact of zinc price fluctuations. The Company's current zinc forward purchase commitments (See Note 6) are considered derivatives, but the Company has elected to account for these purchase commitments as normal purchases.

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#### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of North American Galvanizing & Coatings, Inc. is responsible for the integrity and accuracy of the accompanying consolidated financial statements. Management believes that the consolidated financial statements for the three years ended December 31, 2003 have been prepared in conformity with accounting principles, appropriate in the circumstances, generally accepted in the United States. In preparing the consolidated financial statements, management makes informed judgments and estimates where necessary to reflect the expected effects of events and transactions that have not been completed. The Company's disclosure controls, including operating procedures and guidelines, ensure that material information required to be disclosed is appropriately and timely recorded and communicated to management.

Management relies on a system of internal operating procedures and accounting controls that allows it to meet its responsibility for the reliability of the consolidated financial statements. This system provides reasonable assurance that the Company's physical and intellectual assets are safeguarded and transactions are recorded and processed in accordance with management's authorization that permits the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. Management believes that the Company's system of internal operating

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procedures and accounting controls provide reasonable assurance that errors that could be material to the consolidated financial statements are prevented or would be detected within a timely period.

The Audit Committee of the Board of Directors, composed of three Independent Directors, is responsible for overseeing the Company's financial reporting process. The Audit Committee regularly meets with executive and financial management to review financial reports and monitor matters that could be material to the consolidated financial statements. The Audit Committee also meets several times a year with the independent auditors who have free access to the Audit Committee and the Board of Directors to discuss the quality and acceptability of the Company's financial reporting, internal controls and matters related to corporate governance.

The independent auditors are engaged to express an opinion on the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. Their report is included herein on page FS-16.

/s/ Ronald J. Evans

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Ronald J. Evans  
President and  
Chief Executive Officer

/s/ Paul R. Chastain

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Paul R. Chastain  
Vice President and  
Chief Financial Officer

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### INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF  
NORTH AMERICAN GALVANIZING & COATINGS, INC. (FORMERLY KINARK CORPORATION)

We have audited the accompanying consolidated balance sheets of North American Galvanizing & Coatings, Inc. and subsidiary (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of North American Galvanizing & Coatings, Inc. and subsidiary at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period

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ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and ceased amortizing goodwill effective January 1, 2002.

Deloitte & Touche LLP  
Tulsa, Oklahoma  
March 26, 2004

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### CONSOLIDATED BALANCE SHEETS

	December 31	
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)	2003	2002
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 56	\$ 3
Investments	73	--
Trade receivables, less allowances of \$339 for 2003 and \$285 for 2002	4,594	4,529
Inventories	5,408	6,154
Prepaid expenses and other assets	87	618
Deferred tax asset, net	746	444
<b>TOTAL CURRENT ASSETS</b>	<b>10,964</b>	<b>11,748</b>
<b>PROPERTY, PLANT AND EQUIPMENT, AT COST</b>		
Land	1,962	1,714
Galvanizing plants and equipment	34,941	40,099
	36,903	41,813
Less: Allowance for depreciation	14,529	16,203
Construction in progress	286	303
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>22,660</b>	<b>25,913</b>
<b>GOODWILL, NET</b>	<b>3,389</b>	<b>3,389</b>
<b>OTHER ASSETS</b>	<b>354</b>	<b>381</b>
<b>TOTAL ASSETS</b>	<b>\$ 37,367</b>	<b>\$ 41,431</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term obligations	\$ 1,408	\$ 1,283
Current portion of bonds payable	656	617
Trade accounts payable	480	1,025
Accrued payroll and employee benefits	623	846
Other taxes	316	301
Other accrued liabilities	874	644

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TOTAL CURRENT LIABILITIES	4,357	4,716
DEFERRED TAX LIABILITY, NET	774	1,187
LONG-TERM OBLIGATIONS	6,768	8,480
BONDS PAYABLE	6,626	7,283
SUBORDINATED NOTES PAYABLE	957	937
TOTAL LIABILITIES	19,482	22,603
COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)		
STOCKHOLDERS' EQUITY		
Common stock - \$.10 par value:		
authorized - 18,000,000 shares		
issued - 8,209,925 shares in 2003 and 2002	819	819
Additional paid-in capital	17,343	17,464
Retained earnings	5,496	6,509
Other Comprehensive Income	6	--
Common shares in treasury at cost:		
1,426,788 in 2003 and 1,473,006 in 2002	(5,779)	(5,964)
TOTAL STOCKHOLDERS' EQUITY	17,885	18,828
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 37,367	\$ 41,431

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31		
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	2003	2002	2001
SALES	\$33,200	\$38,178	\$35,039
Cost of sales	23,833	26,208	24,527
Selling, general and administrative expenses	5,992	5,904	5,341
Depreciation and amortization	2,880	3,028	3,181
TOTAL COSTS AND EXPENSES	32,705	35,140	33,049
OPERATING INCOME	495	3,038	1,990
Interest expense, net	654	872	1,315
Other expense, net	--	--	258
Income (Loss) from Continuing Operations			
before Income taxes	(159)	2,166	417
Income tax expense	23	851	175
INCOME (LOSS) FROM CONTINUING OPERATIONS	(182)	1,315	242
Income (Loss) from Discontinued Operations, net	(77)	(205)	47
Loss on write-off of assets			

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of discontinued operations, net	(754)	--	--
NET INCOME (LOSS)	(1,013)	1,110	289
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized investment gain	6	--	--
Cash flow hedges:			
Cumulative effect, accounting for derivatives, net of related income taxes of \$48	--	--	(65)
Less: reclassification adjustment for derivative losses included in net income, net of related income taxes of \$48	--	--	65
OTHER COMPREHENSIVE INCOME	6	--	--
COMPREHENSIVE INCOME (LOSS)	\$ (1,007)	\$ 1,110	\$ 289
NET INCOME (LOSS) PER COMMON SHARE			
Continuing Operations:			
Basic	\$ (.03)	\$ .20	\$ .03
Diluted	\$ (.03)	\$ .18	\$ .03
Discontinued Operations:			
Basic	\$ (.12)	\$ (.03)	\$ .01
Diluted	\$ (.12)	\$ (.03)	\$ .01
Net Income (Loss):			
Basic	\$ (.15)	\$ .17	\$ .04
Diluted	\$ (.15)	\$ .15	\$ .04

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)

	SHARES OUTSTANDING	COMMON STOCK (\$.10 PAR VALUE)	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	OTHER COMPR HENS I INCOM
JANUARY 1, 2001	6,712,209	\$ 819	\$ 17,364	\$ 5,110	\$ --
Net income	--	--	--	289	--
Treasury stock purchases	(50,000)	--	--	--	(4
Common stock warrants issued	--	--	100	--	--
Shares outstanding adjustment	18,616	--	--	--	--

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JANUARY 1, 2002	6,680,825	819	17,464	5,399	--
Net income	--	--	--	1,110	--
Treasury stock issued	56,094	--	--	--	--
JANUARY 1, 2003	6,736,919	819	17,464	6,509	--
Net loss	--	--	--	(1,013)	--
Other comprehensive income	--	--	--	--	--
Treasury stock issued	46,218	--	(121)	--	--
DECEMBER 31, 2003	6,783,137	\$ 819	\$ 17,343	\$ 5,496	\$

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)	YEARS ENDED DECEMBER 31		
	2003	2002	2001
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	\$ (1,013)	\$ 1,110	\$ 2,110
(Income) loss from discontinued operations	1,197	--	--
(Gain) loss on disposal of assets	7	7	(1)
Depreciation and amortization	2,880	3,027	3,110
Deferred income taxes	(715)	507	1,110
Non-cash directors' fees	64	65	--
Changes in assets and liabilities:			
Accounts receivable, net	(65)	292	60
Inventories and other assets	1,299	(974)	40
Accounts payable, accrued liabilities and other	(523)	(63)	(20)
Net cash provided by continuing operations	3,131	3,971	4,300
Net cash provided by discontinued operations	96	200	200
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3,227</b>	<b>4,171</b>	<b>4,600</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of investment	(68)	--	--
Capital expenditures	(901)	(5,880)	(3,200)
Proceeds from sale of assets	--	--	--
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(969)</b>	<b>(5,880)</b>	<b>(3,200)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from subordinated debt	--	--	900
Proceeds from stock warrants	--	--	100
Tax exempt bond funds held by bond trustee	--	--	1,200
Deferred financing	--	--	(100)
Purchase of treasury stock	--	--	(100)

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Payment on bonds	(618)	(587)	(5)
Payments on long-term obligations	(15,947)	(16,794)	(18,5)
Proceeds from long-term obligations	14,360	18,240	16,4
<hr/>			
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(2,205)	859	(5)
<hr/>			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	53	(850)	7
<hr/>			
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3	853	
<hr/>			
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 56	\$ 8	\$ 8
<hr/>			
CASH PAID DURING THE YEAR FOR:			
Interest	\$ 556	\$ 980	\$ 1,2
Income taxes	\$ 87	\$ 150	\$ 4

See notes to consolidated financial statements.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended December 31, 2003, 2002, and 2001

#### DESCRIPTION OF BUSINESS

North American Galvanizing & Coatings, Inc. ("North American Galvanizing" or the "Company") is engaged in hot dip galvanizing and coatings for corrosion protection of fabricated steel products through its wholly owned subsidiary, North American Galvanizing Company ("NAG"). NAG provides metals corrosion protection with ten regionally located galvanizing plants. The Company grants unsecured credit to its customers on terms standard for this industry, typically net 30 to 45 days.

#### (1) DISCONTINUED OPERATIONS

The Company wrote-off its investment in the formerly idled Houston-Cunningham galvanizing plant in the second quarter ended June 30, 2003 as a discontinued operation. In 2002, the Board of Directors authorized the Company to pursue alternative uses for the Houston-Cunningham plant, which was temporarily idled in late 2001. Management believed the carrying value of the plant and the related galvanizing assets would be realized through future operations of the plant. Accordingly, no write-down was recognized in 2002. However, in late April 2003, new events, combined with a further contraction of the galvanizing business in the Houston market, resulted in the likely inability to maintain the plant as part of the Company's continuing operations. The write-off resulted in a net loss on the abandoned assets of \$754,000, net of taxes of \$443,000. The net loss from operations for the Cunningham plant was \$77,000 and \$205,000, net of taxes of \$45,000 and \$133,000 for 2003 and 2002, respectively; in 2001, the Cunningham plant reported net income \$47,000, net of taxes of \$34,000.

#### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**PRINCIPLES OF CONSOLIDATION.** The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All inter-company transactions are eliminated in consolidation.

**ESTIMATES.** The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management

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to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for each of the years. Actual results will be determined based on the outcome of future events and could differ significantly from the estimates.

**CASH AND CASH EQUIVALENTS.** Cash and cash equivalents include interest bearing deposits with original maturities of three months or less.

**INVESTMENTS.** The Company has classified its investments as available-for-sale and records the unrealized holding gains (losses) on these investments as a separate component of Stockholders' Equity as other comprehensive income. If the Company believes that a decline in the fair value of a security is other than temporary, the cost basis of such security is written down and the loss is reflected as a charge to income. Investment income is recognized on the accrual method. Cost is determined on the specific identification basis in computing realized gains and losses on sales of investments.

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The Company's investments consist of equity securities. The amortized cost, unrealized holding gains and losses, and fair values of the Company's available-for-sale equity securities at December 31, 2003 are as follows:

	Cost ----	Gross Unrealized Holding Gains -----	Gross Unrealized Holding Losses -----	Fair Value -----
Equity Securities	\$67,841 =====	\$5,575 =====	\$ -- =====	\$73,416 =====

**INVENTORIES.** Inventories consist of raw zinc "pigs," molten zinc in galvanizing kettles and other chemicals and materials used in the galvanizing process. Inventories are stated at the lower of cost or market with market value based on estimated realizable value from the galvanizing process. Zinc cost is determined on a last-in first-out (LIFO) basis. Other inventories are valued primarily on an average cost basis. Inventories consist of the following:

(DOLLARS IN THOUSANDS)	2003	2002
Zinc	\$ 5,215	\$ 5,929
Other	193	225
	-----	-----
	\$ 5,408	\$ 6,154
	=====	=====

Inventories at December 31, 2003 and 2002 would have been higher by approximately \$1,292,000 and \$1,462,000, respectively, had the Company used first-in-first-out (FIFO) basis for value its zinc inventories. The Company's LIFO inventories represented approximately 96% of total inventories at December 31, 2003 and 2002. Raw zinc replacement cost based on year-end market prices was \$4,263,000 and \$3,668,000 at December 31, 2003 and 2002, respectively. Management estimates the cost of zinc inventories will be recovered from revenue generated by its galvanizing services in the normal course of business. In 2003, inventory quantities were reduced resulting in liquidation of LIFO inventory layers which increased the Company's net loss by \$71,000.

**GOODWILL.** Goodwill represents the excess of purchase price over the fair value of net assets acquired in business combinations. On January 1, 2002, the Company



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adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), although certain provisions of SFAS No. 142 were applicable to goodwill and other intangible assets acquired in transactions completed after June 30, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and requires that goodwill and intangible assets with an indefinite life no longer be amortized but instead be reviewed, at least annually, for impairment. The Company assessed initial impairment under the transition rules of SFAS 142 in the second quarter of 2002 and determined that goodwill was not impaired at January 1, 2002. Management selected May 31 as the date of its annual goodwill impairment test. Based upon the impairment test performed at May 31, 2003, management determined that goodwill was not impaired. The following pro forma results of operations reflect elimination of goodwill amortization included in the year ended December 31, 2001, as if SFAS No. 142 had been in effect at that time (Dollars in thousands except per share amounts).

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	2003	2002	2001
	-----	-----	-----
Reported net income (loss)	\$ (1,013)	\$ 1,110	\$ 289
Add back: Goodwill amortization	--	--	188
	-----	-----	-----
Adjusted net income (loss)	\$ (1,013)	\$ 1,110	\$ 477
	=====	=====	=====
 Earnings per share:			
Reported net income per share			
Basic	\$ (.15)	\$ 0.17	\$ 0.04
Diluted	\$ (.15)	\$ 0.15	\$ 0.04
Goodwill amortization			
Basic	\$ --	\$ --	\$ 0.03
Diluted	\$ --	\$ --	\$ 0.02
Adjusted net income per share			
Basic	\$ (.15)	\$ 0.17	\$ 0.07
Diluted	\$ (.15)	\$ 0.15	\$ 0.06

DEPRECIATION AND AMORTIZATION. Plant and equipment, including assets under capital leases, are depreciated on the straight-line basis over their estimated useful lives, generally at rates of 2% to 6% for buildings and 10% to 20% for equipment, furnishings, and fixtures. In 2001 the Company adopted the units of production method of depreciation, based on projected total tonnage to be processed over the estimated life of the respective equipment, for new galvanizing plants or for significant expansions of existing plants. During 2003 and 2002, the Company removed fully depreciated assets totaling \$3,027,000 and \$2,198,000, respectively, from the accounting records.

ENVIRONMENTAL EXPENDITURES. The Company expenses or capitalizes, where appropriate, environmental expenditures that relate to current operations as they are incurred. Such expenditures are expensed when they are attributable to past operations and are not expected to contribute to current or future revenue generation. The Company records liabilities when remediation or other environmental assessment or clean-up efforts are probable and the cost can be reasonably estimated.

LONG-LIVED ASSETS. Long-lived assets and certain intangibles to be held and used or disposed of are reviewed for impairment on an annual basis or when events or circumstances indicate that such impairment may have occurred. The Company has determined that no impairment loss need be recognized for the years ended December 31, 2003, 2002 or 2001.

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SELF-INSURANCE. The Company is self-insured for workers' compensation and certain health care claims for its active employees. The Company carries excess insurance providing coverage for medical claims exceeding \$60,000 and workers' compensation claims exceeding \$125,000 per occurrence, respectively. The reserves for workers' compensation benefits and health care claims represent estimates for reported claims and for claims incurred but not reported using loss development factors. Such estimates are generally based on historical trends and risk assessment methodologies; however, the actual results may vary from these estimates since the evaluation of losses is inherently subjective and susceptible to significant changing factors.

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REVENUE RECOGNITION. The Company generated revenues by providing galvanizing and other coating services to customers' products. Revenue is recognized when the galvanizing and customer billing processes are completed. Freight billed to customers is recorded as revenue.

DERIVATIVE FINANCIAL INSTRUMENTS. The Company has previously utilized commodity collar contracts as derivative instruments which are intended to offset the impact of potential fluctuations in the market price of zinc. The Company had no derivative instruments that were required to be reported at fair value outstanding at December 31, 2003 and 2002, and did not utilize derivatives during the years ended December 31, 2003 or 2002, except for the zinc forward purchase commitments, which are accounted for as normal purchases (See Note 6).

On January 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). The statement, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives, at fair value, as either assets or liabilities in the balance sheet with an offset either to shareholder's equity and comprehensive income or income depending upon the classification of the derivative. The derivative instruments identified at January 1, 2001, under the provisions of SFAS No. 133 had been previously designated in hedging relationships that addressed the variable cash flow exposure of forecasted purchases of zinc. Under the transition provisions of SFAS No. 133, on January 1, 2001 the Company recorded an after-tax, cumulative-effect-type transition charge of \$65,000 to accumulated other comprehensive income related to these derivatives. The transition adjustment was charged to other expense during 2001 as the derivatives expired. The Company did not apply subsequent hedge accounting for the derivatives existing at January 1, 2001. Accordingly, changes in the fair value of these derivatives subsequent to January 1, 2001 were recorded in other (income) expense.

STOCK OPTIONS. The Company accounts for its stock option plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", under which no compensation cost has been recognized for stock option awards. Had compensation cost for the Company's stock option plans been determined according to the methodology of Statement of Financial Accounting Standard No.123, "Accounting for Stock Based Compensation" ("SFAS No. 123"), the Company's pro forma net earnings (loss) and basic and diluted earnings (loss) per share for 2003, 2002 and 2001, would have been as follows:

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Year Ended December 31		
-----	2003	2002	2001
Net Income (Loss), as reported	\$ (1,013)	\$ 1,110	\$ 289
Deduct: Total stock-based employee compensation expense determined			

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under fair value based methods, net of tax	\$ (20)	\$ (11)	\$ (12)
-----			
Pro forma net income (loss)	\$ (1,033)	\$ 1,099	\$ 277
-----			
Earnings per share:			
Basic - as reported	\$ (0.15)	\$ 0.17	\$ 0.04
-----			
Basic - pro forma	\$ (0.15)	\$ 0.16	\$ 0.04
-----			
Diluted - as reported	\$ (0.15)	\$ 0.15	\$ 0.04
-----			
Diluted - pro forma	\$ (0.15)	\$ 0.16	\$ 0.04
-----			

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The fair value of options granted under the Company's stock option plans was estimated using the Black-Scholes option-pricing model with the following assumptions used:

	Year Ended December 31		
	2003	2002	2001
-----			
Volatility	66%	66%	66%
Discount Rate	4%	5%	5%
Dividend Yield	0%	0%	0%
Fair Value	\$ 0.86	\$ 0.68	\$ 0.63

**INCOME TAXES.** Net deferred income tax assets and liabilities on the consolidated balance sheet reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and the benefit of net operating loss and other tax credit carry-forwards. Valuation allowances are established against deferred tax assets to the extent management believes it is more likely than not that the assets will not be realized. No valuation allowance was considered necessary at December 31, 2003 and 2002.

**NEW ACCOUNTING STANDARDS.** In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this standard had no effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

In July 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." The statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when a liability is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue

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94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this standard, in the first quarter of 2003, had no impact on the Company's consolidated financial position, results of operations or financial statement disclosures.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligations it has undertaken in issuing the guarantee. The interpretation had no material effect on the Company's consolidated financial statements upon adoption.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123."

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SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123, "Accounting for Stock Based Compensation" to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of this standard had no impact on the Company's consolidated financial position, results of operations or financial statement disclosures.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"). The adoption of this standard had no impact on the Company's consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities ("FIN 46"). This interpretation did not have a material impact on the Company's consolidated financial statements.

RECLASSIFICATION. Certain reclassifications have been made to prior periods to conform to the 2003 presentation.

### (3) LONG-TERM OBLIGATIONS

	December 31	
(DOLLARS IN THOUSANDS)	2003	2002
Revolving line of credit	\$ 3,867	\$ 4,390
Term loan	1,567	2,584
Construction loan	2,722	2,768
9.5% note due 2015	20	21
	8,176	9,763
Less current portion	(1,408)	(1,283)
	\$ 6,768	\$ 8,480

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LONG-TERM DEBT. In September 2003, the Company amended a three-year bank credit agreement that was scheduled to expire in June 2004 and extended its maturity to January 1, 2005. Subject to borrowing base limitations, the amended agreement provides a (i) a \$7,000,000 maximum revolving credit facility for working capital and general corporate purposes, (ii) a \$1,911,924 term note and (iii) a \$2,833,332 advancing construction note.

At the December 31, 2003, the Company had additional borrowing capacity of \$1,712,000, net of outstanding irrevocable letters of credit, under the bank revolving line of credit based on the borrowing base calculated under the agreement. At December 31, 2003, the Company had outstanding irrevocable letters of credit for workers' compensation claims totaling \$400,000.

Substantially all of the Company's accounts receivable, inventories, fixed assets and the common stock of its subsidiary are pledged as collateral under the agreement, and the credit agreement is secured by a full and unconditional guaranty from NAG. Amounts borrowed under the agreement bear interest at the prime rate of Bank One, Oklahoma or the LIBOR rate, at the option of the Company, subject to a rate margin adjustment determined by the Company's consolidated debt service ratio. In the event the Company fails to maintain a consolidated debt service coverage ratio for any fiscal quarter of at least 1.25 to 1.00, the

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Applicable LIBOR Rate Margin will be increased to 5.75% and the Applicable Prime Rate Margin will be increased to 3.00%. Thereafter, the increased rate margin will remain in effect until such time as the Company has maintained a consolidated debt service coverage ratio greater than or equal to 1.25 to 1.00 for a subsequent fiscal quarter.

In the event the Company fails to maintain a consolidated capital expenditures to EBITDA ratio for any fiscal quarter of at least 1.00 to 1.00, the increase in the Applicable LIBOR Rate Margin ranges from 3.75% to 5.75%, and the increase in the Applicable Prime Rate Margin ranges from 1.00% to 3.00%.

Amounts borrowed under the bank credit facilities bore interest ranging from 4.13% to 9.25% during the three years ended December 31, 2003, and an effective rate of 4.2% at December 31, 2003 and 4.50% at December 31, 2002. Interest expense capitalized in connection with construction in progress was \$148,641 and \$15,979 in 2002 and 2001, respectively.

Term loan payments are based on thirty-five (35) installments with equal monthly payments of principal and interest, and the loan may be prepaid without penalty. The revolving line of credit may be paid down without penalty, or additional funds may be borrowed up to the revolver limit. Construction loan payments are based on one hundred eight (108) installments of equal monthly payments of principal, plus interest at the prime rate of Bank One: interest is subject to a rate margin adjustment determined by the Company's consolidated debt service ratio. The credit agreement requires the Company to maintain compliance with covenant limits for current ratio, debt to tangible net worth ratio, debt service coverage ratio and a capital expenditures ratio. The Company was in compliance with the covenants or had waivers for events of non-compliance at December 31, 2003

Aggregate maturities of long-term debt of \$8,176,000, exclusive of subordinated notes and bonds are payable as follows: \$1,408,000 (2004), \$6,749,000 (2005), \$1,000 (2006), \$1,000 (2007), \$1,000 (2008) and \$14,000 (thereafter).

#### (4) BONDS PAYABLE

During the first quarter of 2000, the Company issued \$9,050,000 of Harris County

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Industrial Development Corporation Adjustable Rate Industrial Development Bonds, Series 2000 (the "Bonds"). The Bonds are senior to other debt of the Company. All of the bond proceeds, which were held in trust by Bank One Trust Company, N.A. ("Trustee"), were used by NAG for the purchase of land and construction of a hot dip galvanizing plant in Harris County, Texas. The galvanizing plant was completed and began operation in the first quarter of 2001. The principal amount outstanding on these bonds was \$7,282,500 at December 31, 2003. In accordance with the bond agreement, the Company is obligated to make principal payments to a sinking fund on the following schedule: 2004 \$656,250; 2005 \$692,500; 2006 \$731,250; 2007 \$767,500, 2008 \$806,250 and 2009 to 2012 \$3,628,750. The Bonds are senior to other debt of the Company.

The Bonds bear interest at a variable rate that can be converted to a fixed rate upon certain conditions outlined in the bond agreement. In September 2003, the Reimbursement Agreement with the bank trustee was amended (a) to adjust the variable interest rate on the Company's interest deposits from 5.25% to 3.5% on the principal amount of Bonds until such time as the trustee determines that a subsequent adjustment is warranted and (b) to permit the Company to withdraw excess interest from the trustee's Interest Account on or about March 31, June 30, September 30 and December 31 of each year, commencing September 30, 2003. On September 30, 2003, the Company withdrew excess interest of \$311,000 from

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the Interest Account and applied the proceeds to pay-down the outstanding balance on its bank revolving credit facility. At December 31, 2003, the Company determined, in accordance with the amended Reimbursement Agreement, that the trustee's interest account held excess interest in the amount of \$43,000, which the Company recorded as a current asset.

The Bonds are subject to annual sinking fund redemption, which was \$617,500 in 2003 and increases annually thereafter to a maximum redemption of \$960,000 on June 15, 2012. The Company makes monthly payments of principal and interest of approximately \$74,000 into a sinking fund. The final maturity date of the Bonds is June 15, 2013. The Company has the option of early redemption of the Bonds at par unless the bonds are converted to a fixed interest rate, in which case they are redeemable at a premium during a period specified in the bond agreement. The Company's obligation under the bond agreement is secured through a letter of credit with a bank which must remain in effect as long as any Bonds are outstanding. The letter of credit is collateralized by substantially all the assets of the Company.

### (5) SUBORDINATED DEBT

In February 2001, the Company completed a \$1,000,000 Private Placement of unsecured subordinated debt. The Company utilized the proceeds to partially fund construction of a new galvanizing facility in St. Louis, Missouri. Participation in the Private Placement was offered to accredited investors, which included the Company's directors and eligible stockholders holding a minimum of 100,000 shares of common stock. The amount outstanding on these notes, net of discount, was \$957,000 and \$937,000 at December 31, 2003 and 2002, respectively. The notes, which mature February 17, 2006 and bear interest at 10% payable annually, were issued with warrants to purchase 666,666 shares of common stock of the Company. Terms of the warrants, which expire February 17, 2008, permit the holder to purchase shares of the Company's common stock at any time prior to the expiration date. The exercise price of \$.856 per share reflects the fair value of the Company's common stock at the time the warrants were issued, as determined by an independent financial advisor.

### (6) COMMITMENTS

The Company leases its headquarters office, and certain manufacturing buildings and equipment under non-cancelable operating leases. The Company also leases

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certain facilities to third parties under non-cancelable operating leases. These operating leases generally provide for renewal options and periodic rate increases and are typically renewed in the normal course of business. Lease expense was \$673,000 in 2003, \$629,000 in 2002 and \$653,000 in 2001.

Minimum annual rental commitments at December 31, 2003 are payable as follows:

(DOLLARS IN THOUSANDS)	Operating Leases
2004	\$623
2005	586
2006	481
2007	433
2008	84
Thereafter	315
	\$2,522

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The Company has commitments with domestic and foreign zinc producers to purchase zinc used in its hot dip galvanizing operations. Commitments for the future delivery of zinc either reflect rates then quoted on the London Metals Exchange and are not subject to price adjustment. These zinc purchase commitments are considered to be derivatives and are accounted for as normal purchases. At December 31, 2003, the aggregate commitments for the procurement of zinc at fixed prices were \$1.4 million. The Company reviews these fixed price contracts for losses using the same methodology employed to estimate the market value of its zinc inventory.

### (7) CONTINGENCIES

NAG was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co. ("Sandoval"). The IEPA notice includes NAG as one of 59 organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. Based on current information and the preliminary stage of investigation, NAG's share of any probable future costs cannot be estimated at this time.

The Company will continue to have additional environmental compliance costs associated with operations in the galvanizing business. The Company is committed to complying with the environmental legislation and regulations affecting its operations. Due to the uncertainties associated with future environmental technologies, regulatory interpretations, and prospective legislative activity, management cannot reasonably quantify the Company's potential future costs in this area.

Various litigation arising in the ordinary course of business is pending against the Company. Management believes that resolution of the Company's litigation and environmental matters should not materially affect the Company's consolidated financial position or liquidity. Should future developments cause the Company to record an additional liability for environmental matters, litigation or customer claims, the recording of such a liability could have a material impact on the results of operations and cash flows for the period involved.

### (8) INCOME TAXES

The provision for income taxes consists of the following:

Years Ended December 31,

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(DOLLARS IN THOUSANDS)	2003	2002	2001
Current	\$ 250	\$ 211	\$ 100
Deferred	(715)	507	109
Income tax expense(benefit)	\$ (465)	\$ 718	\$ 209

The 2003 income tax benefit of \$465,000 includes \$488,000 related to discontinued operations net of \$23,000 income tax expense in continuing operations.

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The reconciliation of income taxes at the federal statutory rate to the Company's effective tax rate is as follows:

	Years Ended December 31,		
(DOLLARS IN THOUSANDS)	2003	2002	2001
Taxes at statutory rate	\$ (502)	\$ 622	\$ 169
State tax net of federal benefit	59	73	20
Goodwill amortization	--	--	71
Adjustment to the estimate of the deferred tax asset	70	--	--
Other	26	23	(51)
Taxes at effective tax rate	\$ (465)	\$ 718	\$ 209

At December 31, 2003, alternative minimum tax credit carry-forwards of approximately \$352,000 are available as carry-forwards to future years.

The tax effects of significant items comprising the Company's net deferred tax asset (liability) consist of the following:

	December 31,	
(DOLLARS IN THOUSANDS)	2003	2002
Deferred tax assets:		
Net operating loss carryback	\$ 325	\$ --
Alternative minimum tax	352	461
Reserves not currently deductible	421	443
	\$ 1,098	\$ 904
Deferred tax liabilities:		
Differences between book and tax basis of property	1,126	1,647
	\$ (28)	\$ (743)

As reported in the balance sheet:		
Deferred tax assets	\$ 746	\$ 444
Deferred tax liabilities	774	1,187



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-----  
 \$ (28) \$ (743)  
 =====

(9) STOCK OPTION PLANS

At December 31, 2003 and 2002, 1,042,000 shares of the Company's common stock were reserved for issuance under the terms of the stock option plans for key employees and directors. The plans generally provide options to purchase Company stock at fair value as of the date the option is granted. Options generally become exercisable in installments specified by the applicable plan and must be exercised within ten years of the grant date

Under Option -----	Number of Shares -----	Weighted-Avg. Exercise Price -----
Balance at Jan. 1, 2001	407,333	2.70
Granted	30,000	1.05
Canceled	(60,000)	3.50
	-----	
Balance at Dec. 31, 2001	377,333	2.44
Granted	75,000	1.26
	-----	
Balance at Dec. 31, 2002	452,333	2.24
Granted	80,000	1.44
	-----	
Balance at Dec. 31, 2003	532,333	\$2.12
	=====	=====

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At December 31, 2003, 2002 and 2001, options for 407,333, 377,333 and 347,333 shares, respectively, were exercisable.

Information about stock options as of December 31, 2003:

Options Outstanding

Range of Exercise Prices -----	Number Outstanding -----	Weighted-Avg. Remaining Contractual Life -----	Weighted-Avg. Exercise Price -----
\$1.00 to \$1.39	163,333	7.9 years	\$1.19
\$1.50	50,000	9.1	1.50
\$2.00	15,000	5.5	2.00
\$2.50 to \$3.00	234,500	2.0	2.50
\$3.06 to \$3.50	62,000	3.4	3.30
\$4.50	7,500	0.2	4.50
	-----		
	532,333		
	=====		

Options Exercisable at December 31, 2003

Weighted-Avg. Exercise Price -----	Number Exercisable -----
\$1.05	30,000
1.06	7,708
1.25	625

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1.31	20,000
1.39	30,000
2.00	15,000
2.50	233,000
3.00	1,500
3.06	15,000
3.25	15,000
3.38	15,000
3.50	17,000
4.50	7,500
	-----
	407,333
	=====

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10) EARNINGS PER SHARE RECONCILIATION

For the Year Ended December 31	Income (Numerator)	Shares (Denominator)	Per Share Amount
-----			
2001			
Net Income	\$289,000	--	--
Basic EPS	--	6,698,972	\$.04
Effect of dilutive stock options and warrants	--	666,666	--
-----			
Diluted EPS	\$289,000	7,365,638	\$.04
-----			
2002			
Net Income	\$1,110,000	--	--
Basic EPS		6,717,088	\$.17
Effect of dilutive stock options and warrants	--	671,996	(\$.02)
-----			
Diluted EPS	\$1,110,000	7,389,084	\$.15
-----			
2003			
Net Loss	\$(1,013,000)	--	--
Basic & Diluted EPS		6,762,587	\$(.15)
-----			
Diluted EPS	\$(1,013,000)	7,437,789	\$(.15)
-----			

The Company had a net loss for the year ended December 31, 2003 and the effect of including dilutive securities in the earnings per common share would have been anti-dilutive. Accordingly, all options to purchase common shares were excluded from the calculation of diluted loss per share for the year ended December 31, 2003. The number of options excluded from the calculation of diluted earnings per share due to the option price exceeding the share market price are 319,000 and 347,333, at December 31, 2002 and 2001, respectively.

(11) EMPLOYEE BENEFIT PLAN

The Company offers a 401(k) defined contribution plan to its eligible employees.

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Employees not covered by a bargaining contract become eligible to enroll in this benefit plan after one year of service with the Company. Company contributions to this benefit plan were \$204,000 in 2003, \$233,000 in 2002 and \$205,000 in 2001. Assets of the defined contribution plan consisted of short-term investments, intermediate bonds, long-term bonds and listed stocks.

### (12) STOCKHOLDERS' EQUITY

In August 1998, the Board of Directors authorized the Company to repurchase up to \$1,000,000 of its common stock in open market transactions. Repurchases of the Company's common stock totaled 50,000 shares at a cost of \$49,000 in 2001 and 55,321 shares at a cost of \$139,000 in 1999. In 2003 and 2002, Directors of the Company could elect to receive shares of the Company's common stock for up to all of their fee for board service. Under this program, the Company issued 46,218 and 56,094 shares from Treasury Stock in 2003 and 2002, respectively, in lieu of cash payments of \$65,000 for each year. In 2003, the Company recorded other comprehensive income of \$6,000 to reflect the unrealized gain on an investment related to available-for-sale equity securities acquired during 2003.

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### (13) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of financial instruments included in current assets and liabilities approximates fair value. The fair value of the Company's long-term debt is estimated to approximate carrying value based on the borrowing rates currently available to the Company for loans with similar terms and average maturities.

### (14) UNION CONTRACTS

NAG's one-year labor agreement with the United Steel Workers Union covering production workers at its Tulsa galvanizing plants expired March 31, 2003. In October 2003, the union employees ratified a new three-year labor agreement, effective November 1, 2003. The new agreement re-defines eligibility for payment of over-time, requires employee contributions for family coverage under the Company's group medical insurance program and grandfathers vacation benefits for certain long-term employees.

### (15) SEGMENT DISCLOSURES

The Company's sole business is hot dip galvanizing and coatings, which is conducted through its wholly owned subsidiary, North American Galvanizing Company.

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### QUARTERLY RESULTS (UNAUDITED)

Quarterly Results of Operations for the Years Ended December 31, 2003 and 2002 were:

	2003			
	Mar 31	Jun 30	Sep 30	Dec 31
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)				

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SALES	\$ 8,040	\$ 8,398	\$ 8,516	\$ 8,246
GROSS PROFIT	2,038	2,563	2,394	2,372
Income (loss) from continuing operations	(286)	73	90	(59)
Loss from discontinued operations	(41)	(790)	--	--
NET INCOME (LOSS)	\$ (327)	\$ (717)	\$ 90	\$ (59)
INCOME (LOSS) PER COMMON SHARE				
Continuing Operations:				
Basic and Diluted	(.04)	.01	.01	(.01)
Discontinued Operations:				
Basic and Diluted	--	(.12)	--	--
Net Income (Loss):				
Basic and Diluted	\$ (.04)	\$ (.11)	\$ .01	\$ (.01)

	2002			
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	Mar 31	Jun 30	Sep 30	Dec 31
SALES	\$ 9,217	\$ 10,103	\$ 9,915	\$ 8,943
GROSS PROFIT	2,858	3,245	3,115	2,752
Income (loss) from continuing operations	273	440	393	209
Loss from discontinued operations	(49)	(48)	(55)	(53)
NET INCOME	\$ 224	\$ 392	\$ 338	\$ 156
INCOME (LOSS) PER COMMON SHARE				
Continuing Operations:				
Basic	.04	.06	.06	.04
Diluted	.04	.05	.06	.03
Discontinued Operations:				
Basic and Diluted	(.01)	--	(.01)	(.01)
Net Income (Loss):				
Basic	\$ .03	\$ .06	\$ .05	\$ .03
Diluted	\$ .03	\$ .05	\$ .05	\$ .02

The Company typically experiences increased galvanizing activity and sales in the second and third quarters due to increased construction activity in those periods. Changes in gross profit and gross profit margin reflect sales volume, as well the impact of fixed costs in the Company's cost structure and also product mix.

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SELECTED FINANCIAL HIGHLIGHTS

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The following is a summary of selected financial data of the Company (Dollars in Thousands, Except per Share Amounts)

FOR THE YEARS ENDED DECEMBER 31,	2003*	2002**	2001	2000
Sales	\$ 33,200	\$ 38,178	\$ 35,039	\$ 33,9
Operating income percent of sales	\$ 495 1.5%	\$ 3,038 8.0%	\$ 1,990 5.7%	\$ 1,6 4
Net Earnings (Loss)	\$ (1,013)	\$ 1,110	\$ 289	\$ (1,2
Basic Earnings (Loss) per common share	\$ (.15)	\$ .17	\$ .04	\$ (.
Diluted Earnings (Loss) per common share	\$ (.15)	\$ .15	\$ .04	\$ (.
Capital Expenditures	\$ 901	\$ 5,880	\$ 3,297	\$ 9,4
Depreciation & Amortization	\$ 2,880	\$ 3,027	\$ 3,181	\$ 2,6
Weighted average shares outstanding*	7,437,789	7,389,084	7,365,638	6,712,2
AT DECEMBER 31,	2003	2002	2001	2000
Working Capital	\$ 6,607	\$ 7,032	\$ 7,606	\$ 7,6
Total Assets	\$ 37,367	\$ 41,431	\$ 39,092	\$ 40,6
Long-Term Obligations	\$ 14,351	\$ 16,700	\$ 16,178	\$ 17,9
Stockholders' Equity	\$ 17,885	\$ 18,828	\$ 17,653	\$ 17,3
Book Value Per Share	\$ 2.64	\$ 2.79	\$ 2.64	\$ 2.
Common Shares Outstanding	6,783,137	6,736,919	6,680,825	6,712,2

\* Weighted average shares outstanding include the dilutive effect of stock options and warrants, if applicable. All amounts for all years presented prior to 2003 have been restated to reflect discontinued operations.

\*\* On January 1, 2002, the Company adopted SFAS 142 "Goodwill and Other Intangible Assets" and ceased amortizing goodwill. In each of the three years ended December 31, 2001, the Company recorded goodwill amortization of approximately \$188,000 after tax.