

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

PIRELLI ARMSTRONG TIRE CORPORATION	§	Civil Action No.
RETIREE MEDICAL BENEFITS TRUST, <i>et al.</i> , On	§	H-02-0410
Behalf of Themselves and All Others Similarly Situated,	§	(Consolidated)
	§	Hon. Vanessa D. Gilmore
Plaintiffs,	§	
	§	<u>CLASS ACTION</u>
vs.	§	
	§	
HANOVER COMPRESSOR COMPANY, <i>et al.</i> ,	§	
	§	
Defendants.	§	

NOTICE OF PENDENCY OF CLASS ACTION AND PROPOSED CLASS ACTION SETTLEMENT

TO: ALL PERSONS WHO PURCHASED HANOVER SECURITIES BETWEEN MAY 4, 1999 AND DECEMBER 23, 2002, INCLUSIVE.

PLEASE READ THIS NOTICE CAREFULLY AND COMPLETELY. YOUR RIGHTS MAY BE AFFECTED. YOU MAY BE ENTITLED TO RECEIVE BENEFITS PURSUANT TO THE PROPOSED SETTLEMENT DESCRIBED HEREIN. TO CLAIM YOUR SHARE OF THE SETTLEMENT FUND, YOU MUST SUBMIT A VALID PROOF OF CLAIM POSTMARKED ON OR BEFORE MARCH 12, 2004.

PLEASE FIND THE DEFINITION OF CAPITALIZED TERMS IN THE SECTION OF THIS NOTICE ENTITLED "DEFINITIONS."

This Notice has been sent to you pursuant to Rule 23 of the Federal Rules of Civil Procedure and an Order of the United States District Court for the Southern District of Texas, Houston Division (the "Court"). The purpose of this Notice is to inform you of the proposed Settlement of this class action litigation (the "Action") and of the hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the Settlement. This Notice is not intended to be, and should not be construed as, an expression of any opinion by the Court with respect to the truth of the allegations in the Action or the merits of the claims or defenses asserted. This Notice describes the rights you may have in connection with the Settlement and what steps you may take in relation to the Settlement and this class action litigation.

The proposed Settlement creates a Securities Settlement Fund comprised of cash in the amount of \$29,500,000 (which will accrue interest prior to distribution), 5,000,000 shares of Hanover Common Stock, and a note in the amount of \$6,650,000, a portion of which will go toward settlement of related shareholder derivative and ERISA class action litigation. The securities to be issued will either be registered or exempt from registration pursuant to §3(a)(10) of the Securities Act of 1933. In addition to the monetary relief, Hanover will implement significant corporate governance changes. Based on Lead Plaintiffs' estimate of the number of shares entitled to participate in the Settlement, and the anticipated number of claims to be submitted by members of the Class, the average distribution per share would be approximately \$0.80 before deduction of Court-approved fees and expenses. However, your actual recovery from the Securities Settlement Fund will depend on a number of variables, including the number of claimants, the number and type of securities you purchased or sold, the timing of your purchases and sales, if any, and the expense of administering the claims process.

Lead Plaintiffs and the Settling Securities Defendants do not agree on the average amount of damages per share that would be recoverable if Lead Plaintiffs were to have prevailed on each claim asserted. The issues on which the parties disagree include (1) the appropriate economic model for determining the amount by which Hanover Securities were allegedly artificially inflated (if at all) during the Class Period; (2) the amount by which Hanover Securities were allegedly artificially inflated (if at all) during the Class Period; (3) the effect of various market forces influencing the trading price of Hanover Securities at various times during the Class Period; (4) the extent to which external factors, such as general market conditions, influenced the trading price of Hanover Securities at various times during the Class Period; (5) the extent to which the various matters that Lead Plaintiffs alleged were materially false or misleading influenced (if at all) the trading price of Hanover Securities at various times during the Class Period; (6) the extent to which the various allegedly adverse material facts that Lead Plaintiffs alleged were omitted influenced (if at all) the trading price of Hanover Securities at various times during the Class Period; and (7) whether the statements made or facts allegedly omitted were false, material or otherwise actionable under the federal securities laws.

The Lead Plaintiffs believe the proposed Settlement is an outstanding result and clearly in the best interests of the Class. Because of the risks associated with continuing to litigate and proceeding to trial, there was a danger that Lead Plaintiffs would not have prevailed on any of their claims, in which case the Class would receive nothing. In addition, the amount of damages recoverable by the Class was and is challenged by Settling Securities Defendants. Recoverable damages in this case are limited to losses caused by conduct actionable under applicable law and, had the litigation gone

to trial, the Settling Securities Defendants intended to assert that some or all of the losses of Class Members were caused by non-actionable market, industry or general economic factors.

Lead Plaintiffs' counsel have not received any payment for their services in conducting this Action on behalf of the Lead Plaintiffs and the members of the Class, nor have they been reimbursed for their out-of-pocket expenditures. If the Settlement is approved by the Court, counsel for the Lead Plaintiffs will apply to the Court for attorneys' fees of up to 22% of the settlement proceeds and reimbursement of out-of-pocket expenses not to exceed \$500,000, to be paid from the Securities Settlement Fund. If the amount requested by counsel is approved by the Court, the average cost per share would be \$0.18. The average cost per share could vary depending on the number of shares for which claims are filed.

For further information regarding this Settlement you may contact: Rick Nelson, Milberg Weiss Bershad Hynes & Lerach LLP, 401 B Street, Suite 1700, San Diego, California 92101, Telephone (619) 231-1058. Please do not call any representative of Hanover or the Court.

SETTLEMENT HEARING

A Settlement Hearing will be held on February 6, 2004 at 2:30 p.m., before the Honorable Vanessa D. Gilmore, United States District Court for the Southern District of Texas, Houston Division, 515 Rusk Avenue, Houston, Texas 77002, to determine: (A) whether the proposed Settlement should be approved by the Court as fair, reasonable and adequate; (B) whether the proposed Plan of Allocation of the Securities Settlement Fund is fair, reasonable and adequate; (C) whether the application by Lead Counsel for an award of attorneys' fees and expenses should be approved; (D) whether the amounts requested by the Lead Plaintiffs pursuant to Section 21D of the Securities Exchange Act of 1934 should be approved; and (E) whether an Order and Final Judgment should be entered finally resolving the Action against the Settling Securities Defendants. *This Settlement does not release or otherwise compromise any claim by any member of the Class against Hanover's auditor, PricewaterhouseCoopers LLP or its partners and employees.*

DEFINITIONS USED IN THIS NOTICE

1. "Action" means *Pirelli Armstrong Tire Corporation Retiree Medical Benefits Trust, et al., vs. Hanover Compressor Co.*, Civil Action No. H-02-0410, for which an amended complaint for violation of the federal securities laws was filed against the Settling Securities Defendants on September 5, 2003.

2. "Authorized Securities Claimant" means any Class Member who files or on whose behalf is filed a timely, valid Proof of Claim and whose claim for recovery is allowed pursuant to the terms of the Settlement.

3. "Change of Control" means the (i) sale, lease or exchange of all or substantially all of Hanover's assets to any Person (other than a Person wholly owned, directly or indirectly, by Hanover), (ii) consummation of a merger, consolidation, recapitalization, reorganization or other similar transaction involving Hanover, other than one in which more than 50% of the total voting power of the surviving entity outstanding immediately after such transaction is beneficially owned by the holders of the outstanding voting securities of Hanover immediately prior to such transaction, with the voting power of each such continuing holder relative to all such continuing holders not substantially altered in the transaction, (iii) dissolution or liquidation of Hanover, or (iv) the acquisition or gain by any Person, including a "group" as contemplated by Section 13(d)(3) of the Exchange Act, of ownership or control (including, without limitation, power to vote) of more than 50% of the outstanding shares of Hanover's voting stock (based upon voting power).

4. "Claims Administrator" means the firm of Gilardi & Co. LLC.

5. "Class" or "Securities Plaintiff Class" as the context may require, means all Persons who purchased Hanover Securities during the Class Period (including participants in the Plan who, during the Class Period, purchased Hanover Securities in their accounts in the Plan or acquired Hanover Securities through employer matching contributions) other than (a) those individuals who were officers and/or directors of Hanover during the Class Period and (i) their affiliates and (ii) members of their immediate families, (b) officers and/or directors of Hanover at the Effective Date and (i) their affiliates and (ii) members of their immediate families, (c) the Settling Securities Defendants and (i) their affiliates and (ii) members of their immediate families; (d) Schlumberger and its subsidiaries, (e) GKH and its subsidiaries and affiliates, and (f) the Plan.

6. "Class Period" means the period beginning on May 4, 1999 and ending on December 23, 2002, inclusive.

7. "Corporate Governance Term Sheet" means the Corporate Governance Settlement Term Sheet attached to the Stipulation.

8. "Court" means the United States District Court for the Southern District of Texas.

9. "Effective Date" means, with respect to the Action, the date of completion of the following: (a) entry of an Order and Final Judgment, which approves in all material respects (i) the dismissal of the claims that have been or could be asserted in the Action and (ii) the releases and bar orders provided for in the Stipulation with respect to the Action and (b) either (i) expiration of the time to appeal or otherwise seek review of the Order and Final Judgment which approves, in all material respects, the settlement of the Actions as provided in the Stipulation, without any appeal having been taken or review sought, or (ii) if an appeal is taken or review sought, the expiration of five (5) days after an appeal or review shall have been dismissed or finally determined by the highest court before which appeal or review is sought and which affirms

the material terms of such appealed settlement and/or an Order and Final Judgment and is not subject to further judicial review: provided, however, that any award of attorneys' fees or costs shall not be considered a material provision of the Order and Final Judgment and any appeal of any such award shall not delay the Effective Date and any modification as a result of such appeal shall not be considered a modification of a material term.

10. "Final" means no longer subject to further appeal or review, whether by exhaustion of any possible appeal, lapse of time or otherwise.

11. "GKH" means GKH Partners, L.P., GKH Investments, L.P., GKH Private Limited, HGW Associates, L.P., DWL Lumber Corp. and JAKK Holding Corp.

12. "Hanover" means Hanover Compressor Company, a Delaware corporation.

13. "Hanover Common Stock" means the common stock, par value \$.001 per share, of Hanover.

14. "Hanover Securities" means Hanover common stock and any other Hanover equity or debt security or option related to the forgoing.

15. "Lead Counsel" means Milberg Weiss Bershad Hynes & Lerach LLP.

16. "Lead Plaintiffs" means Pirelli Armstrong Tire Corporation Retiree Medical Benefits Trust, Plumbers & Steamfitters, Local 137 Pension Fund, O. Bryant Lewis, 720 Capital Management, LLC and Specialists DPM.

17. "Michael A. O'Connor" means Michael A. O'Connor and his heirs, assigns, legatees, and devisees, the estate of Michael A. O'Connor, deceased, and Karen L. O'Connor as the independent executrix of the estate of Michael A. O'Connor, deceased.

18. "Milberg Weiss" means Milberg Weiss Bershad Hynes & Lerach LLP.

19. "Notice" means this Notice of Pendency of Class Action and Proposed Class Action Settlement.

20. "Order" means the order preliminarily approving the Settlement referred to in this Notice.

21. "Order and Final Judgment" means an order and final judgment, in substantially the form attached to the Stipulation, by the Court dismissing the Action on the merits and with prejudice.

22. "Person" means a natural person, individual, corporation, partnership, limited partnership, limited liability partnership, limited liability company, association, joint venture, joint stock company, estate, legal representative, trust, unincorporated association, government or any political subdivision or agency thereof, any business or legal entity, and any spouse, heir, legatee, executor, administrator, predecessor, successor, representative or assign of any of the foregoing.

23. "Plan" means the Hanover Companies Retirement Savings Plan.

24. "Plan of Allocation" means the terms and procedures for allocating the Securities Settlement Fund among and distributing it to Authorized Securities Claimants as set forth herein or such other Plan of Allocation as the Court shall approve.

25. "Proof of Claim" means the Proof of Claim and Release and Substitute Form W-9, which will be mailed to the Class together with the Notice.

26. "PwC" means PricewaterhouseCoopers LLP.

27. "Related Persons" means with respect to any Person, such Person's present and former parent entities, subsidiaries (direct or indirect) and affiliates, and each of their respective present and former shareholders, general partners, limited partners, affiliates, divisions, joint ventures, partnerships, officers, directors, employees, agents, representatives, attorneys, insurers, excess insurers, experts, advisors, investment advisors, underwriters, fiduciaries, trustees, auditors, accountants, representatives, spouses and immediate family members, and the predecessors, heirs, legatees, successors, assigns, agents, executors, devisees, personal representatives, attorneys, advisors and administrators of any of them, and the predecessors, successors, and assigns of each of the foregoing, and any other Person in which any such Person has or had a controlling interest or which is or was related to or affiliated with such Person, and any trust of which such Person is the settlor or which is for the benefit of such Person or member(s) of his or her family; provided, however, that PwC, and its partners and employees are excluded from this definition and shall not be deemed to be a Related Person of any Settling Party.

28. "Released Claims" means any and all claims, rights and causes of action, direct and derivative, whether based on federal, state, local, statutory or common law or any other law, rule or regulation, including, without limitation, Unknown Claims, claims under ERISA and claims under federal and state securities laws, that have been, could have been, or in the future might be or could be asserted in any form and in any forum against any of the Released Securities Parties that exist, could have existed, or may arise in connection with or that relate to both (i) the purchase or sale or holding of any Hanover Securities and (ii) any of the transactions (including the registration of securities and any failure to deliver

prospectuses), matters or occurrences, or representations or omissions involved, set forth, referred to, or which relate in any way to the facts or allegations contained in or which could have been contained in the consolidated Securities Actions (including all such claims which arise under state or federal securities laws and accrued or are based on acts or omissions occurring during the Class Period). The Released Claims do not apply and do not release any claims of the Securities Plaintiff Class against PwC or its partners and employees.

29. "Released Securities Parties" means the Settling Securities Defendants, Karen L. O'Connor, as the Independent Executrix of the Estate of Michael A. O'Connor, Deceased, the Plan, and GKH, and each of their respective Related Persons.

30. "Securities Actions" means the putative securities class action lawsuits filed below: *Pirelli Armstrong Tire Corp. Retiree Medical Benefits Trust, et al. v. Hanover Compressor Co., et al.*, Case No. H-02-0410, *McBride v. Hanover Compressor Co.*, Case No. H-02-0431, *Koch v. Hanover Compressor Co.*, Case No. H-02-0441, *Schneider v. Hanover Compressor Co.*, Case No. H-02-0491, *Goldstein v. Hanover Compressor Co.*, Case No. H-02-0526, *Noyes v. Hanover Compressor Co.*, No. H-02-0574, *Rocha v. Hanover Compressor Co.*, Case No. H-02-0594, *Peck v. Hanover Compressor Co.*, Case No. H-02-0627, *Mueller v. Hanover Compressor Co.*, Case No. H-02-0652, *Langhoff v. Hanover Compressor Co.*, Case No. H-02-0764, *Fox v. Hanover Compressor Co.*, Case No. H-02-0815, *Rosen v. Goldberg*, Case No. H-02-0959, *Detectives Endowment v. Hanover Compressor Co.*, Case No. H-02-1016, *Montag v. Hanover Compressor Co.*, Case No. H-02-1030 and *Anderson v. Hanover Compressor Co.*, Case No. H-02-2306.

31. "Securities Settlement Cash Fund" means twenty-nine million five hundred thousand dollars (\$29,500,000), plus interest accrued thereon which Hanover has caused to be deposited into an interest bearing account.

32. "Securities Settlement Fund" means the Securities Settlement Cash Fund, Securities Settlement Note and Securities Settlement Stock Fund.

33. "Securities Settlement Note" means that certain note with a principal amount of six million six hundred fifty thousand dollars (\$6,650,000), maturing on March 31, 2007.

34. "Securities Settlement Stock Fund" means five million (5,000,000) shares of Hanover Common Stock.

35. "Settlement" means the agreement to settle the claims against the Settling Securities Defendants in the Action as described herein.

36. "Settlement Hearing" means a hearing that will be held by the Court to consider (A) whether the proposed Settlement should be approved by the Court as fair, reasonable and adequate; (B) whether the proposed Plan of Allocation of the Securities Settlement Fund is fair, reasonable and adequate, (C) whether the application by Lead Counsel for an award of attorneys' fees and expenses should be approved, (D) whether the amounts requested by the Lead Plaintiffs pursuant to Section 21D of the Securities and Exchange Act of 1934 should be approved, and (E) whether an Order and Final Judgment should be entered finally resolving the Action against the Settling Securities Defendants.

37. "Settling Securities Defendants" means defendants Hanover, Michael J. McGhan, William S. Goldberg, Michael A. O'Connor, Charles D. Erwin, and GKH.

38. "Settling Securities Defendants' Counsel" means Hughes Hubbard & Reed LLP, Katten Muchin Zavis & Rosenman, Dechert LLP, Beck Redden & Secrest, Paul Weiss Rifkind, Wharton & Garrison LLP, Wright & Brown, LLP, and Ogain Bell & Tucker, LLP.

39. "Settling Securities Parties" means the Settling Securities Plaintiffs and the Settling Securities Defendants.

40. "Settling Securities Plaintiffs" means each and every Class Member other than those Persons who timely and validly exclude themselves from participating in the Settlement.

41. "Stipulation" means the proposed Stipulation and Settlement, filed with the Court.

42. "Unknown Claims" means, with respect to a Settling Party, any and all claims which such Settling Party does not know or suspect to exist in his, her or its favor at the time such Settling Party releases such claims which, if known by him, her or it, might or would have affected his, her or its decision not to object to such release or not to exclude himself, herself or itself from remaining a Class Member.

BACKGROUND OF THE LITIGATION

On and after February 4, 2002, putative securities class action lawsuits were filed by the plaintiffs named below on behalf of themselves and others similarly situated in the Court, entitled *Pirelli Armstrong Tire Corp. Retiree Medical Benefits Trust, et al. v. Hanover Compressor Co., et al.*, Case No. H-02-0410, *McBride v. Hanover Compressor Co.*, Case No. H-02-0431, *Koch v. Hanover Compressor Co.*, Case No. H-02-0441, *Schneider v. Hanover Compressor Co.*, Case No. H-02-0491, *Goldstein v. Hanover Compressor Co.*, Case No. H-02-0526, *Noyes v. Hanover Compressor Co.*, No. H-02-0574, *Rocha v. Hanover Compressor Co.*, Case No. H-02-0594, *Peck v. Hanover Compressor Co.*, Case No. H-02-0627, *Mueller v. Hanover Compressor Co.*, Case No. H-02-0652, *Langhoff v. Hanover Compressor Co.*, Case No. H-02-0764, *Fox v. Hanover Compressor Co.*, Case No. H-02-0815, *Rosen v. Goldberg*, Case No. H-02-0959, *Detectives*

Endowment v. Hanover Compressor Co., Case No. H-02-1016, *Montag v. Hanover Compressor Co.*, Case No. H-02-1030 and *Anderson v. Hanover Compressor Co.*, Case No. H-02-2306.

The Securities Actions generally allege that Hanover and certain of its officers and directors violated the federal securities laws as a result of certain alleged misstatements and omissions included in Hanover's periodic filings with the Securities and Exchange Commission and other public statements in connection with transactions which were restated by Hanover in 2002. Generally, the Securities Actions seek to impose liability and recover damages under Section 10 of the Securities and Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and Sections 11 and 15 of the Securities Act of 1933.

By Order dated March 28, 2002, the Court consolidated the Securities Actions under the caption *Pirelli Armstrong Tire Corp. Retiree Medical Benefits Trust, et al. v. Hanover Compressor Co., et al.* By order dated January 6, 2003, the Court appointed Pirelli Armstrong Tire Corporation Retiree Medical Benefits Trust, Plumbers & Steamfitters, Local 137 Pension Fund, O. Bryant Lewis, 720 Capital Management, LLC and Specialists DPM as Lead Plaintiffs and appointed Milberg Weiss as Lead Counsel in the Action. On December 5, 2003 the Court certified the Class for settlement purposes.

Settling Securities Plaintiffs, through Lead Counsel, have conducted and completed extensive research, discovery and investigation during the prosecution of the Action, including without limitation: (1) inspection and analysis of tens of thousands of pages of documents produced by Settling Securities Defendants; (2) review of Hanover's public filings, press releases and other public statements; (3) interviews of numerous Hanover officers and employees; and (4) consultation with accounting and damages consultants.

Settling Securities Parties have engaged in substantial arm's-length negotiations in an effort to resolve all claims that have been or could be asserted in the Action, including conducting numerous meetings and telephone conferences where the terms of the agreements detailed herein were extensively debated and negotiated. Lead Counsel believes that the terms and conditions contained in the Settlement are fair, reasonable and adequate.

CLASS RECOVERY UNDER THE PROPOSED SETTLEMENT

The value of the Securities Settlement Fund at the time the Stipulation was executed was approximately \$80 million, which amount includes cash, Hanover Common Stock, as well as a note with a face amount of approximately \$6.7 million. The Securities Settlement Fund consists of:

Cash. Cash in the amount of twenty-nine million five hundred thousand dollars (\$29,500,000) has been deposited by Hanover, after Hanover obtained funds from its directors' and officers' insurance carriers, into an interest bearing account. As more fully set forth in the Stipulation, Hanover shall deposit an additional three million dollars (\$3,000,000) within five (5) business days after a Change of Control but only if the Change of Control or shareholder approval of the Change of Control occurs prior to twelve (12) months following the Court's final approval of the Settlement. A portion of the cash fund (\$1,775,000) is allocated to the settlement of the ERISA Actions, which is also subject to Court approval.

Hanover Stock. Hanover and GKH (a significant Hanover shareholder) have agreed to pay a total of five million (5,000,000) shares of Hanover Common Stock, which had a closing market price of \$10.40 per share on Tuesday, October 21, 2003. As more fully set forth in the Stipulation, of the five million (5,000,000) shares, two million five hundred thousand (2,500,000) will be paid by Hanover, and two million five hundred thousand (2,500,000) will be paid by GKH. The value of the Securities Settlement Stock Fund is dependent on the value of Hanover's Common Stock, and accordingly has fluctuated and will continue to fluctuate. The number of shares to be paid to the Securities Settlement Stock Fund is fixed and will not change. Hanover and GKH provide no guarantee as to the value of the shares and will not make any additional payment if the value declines. A portion of the Hanover Common Stock (75,000 shares) may be awarded by the Court to counsel in the Derivative Actions for their attorneys' fees and expenses.

Note. After the Effective Date, Hanover will contribute a Securities Settlement Note to the Settlement with a principal amount of six million six hundred fifty thousand dollars (\$6,650,000), maturing on March 31, 2007. As more fully set forth in the Stipulation, the Securities Settlement Note shall accrue interest at an effective annual yield of 5% computed from the date of the Court's final approval of the Settlement. On the maturity date, the Securities Settlement Note, together with accrued interest, will be paid in the form of cash. If at any time after the earlier of (A) March 31, 2004 and (B) the first distribution to the Settling Securities Plaintiffs, and prior to March 31, 2007, the average of the closing price of Hanover Common Stock equals or exceeds \$12.25 for any 15 consecutive trading days, the Securities Settlement Note shall be extinguished. Should there be a Change of Control prior to March 31, 2007, and either (A) the Change of Control results in Hanover's Common Stock being acquired for \$12.25 per share or more then the Note is extinguished, or (B) the Change of Control results in Hanover Common Stock being acquired for less than \$12.25 per share, then the principal amount of the Securities Settlement Note together with any interest that has accumulated shall be due and payable 30 days following the Change in Control.

Distribution of the Settlement Fund: A portion of the Securities Settlement Fund will be used for certain administrative expenses, including the costs of printing and mailing this Notice, the cost of publishing a summary notice, payment of any taxes assessed against the Securities Settlement Fund and costs associated with processing the Proof of Claims submitted. A portion of the Securities Settlement Fund may also be awarded to Lead Plaintiffs for their time and

expenses incurred in the prosecution of the Action on behalf of the Class as allowed by Section 21D of the Securities Exchange Act of 1934, as amended. In addition, as explained below, a portion of the Settlement Fund may be awarded by the Court to Lead Counsel as attorneys' fees and for reimbursement of out-of-pocket expenses. The balance of the Securities Settlement Fund will be distributed according to the Plan of Allocation described below to members of the Class who submit valid and timely Proof of Claim forms.

Corporate Governance Changes: In addition to the monetary relief described above, Hanover will implement significant corporate governance enhancements which are set forth in a Corporate Governance Term Sheet. The governance changes include the appointment of two new directors to Hanover's Board of Directors and the adoption of enhanced independence requirements for members of the Board.

SPECIAL NOTICE FOR CLASS MEMBERS WHO ALSO ARE ERISA CLASS MEMBERS

In connection with the Settlement, Settling Securities Defendants have also agreed to settle litigation under the Employee Retirement Income Security Act ("ERISA") arising from many of the same events on which the Securities Actions were based. By Order dated December 5, 2003, the Court has scheduled a hearing to determine, among other things, whether to certify a class action on behalf of all Persons who, during the Class Period, were participants in the Plan and who, at any time during the Class Period, purchased and/or held Hanover Securities in their accounts in the Plan, and all Persons who hold or held Hanover Securities in the Plan as beneficiaries of any such participants, and whether to approve that proposed settlement. Class members may also be members of the class that has been proposed in the related litigation under ERISA (the "ERISA Class"). All such Persons will also receive a notice describing their rights in connection with that litigation.

A Person may participate in the settlement of both cases if eligible to do so. In addition, Settling Securities Plaintiffs who are members of the ERISA Class may not be required to file a Proof of Claim in this proceeding in respect to some or all of their holdings.

STATEMENT OF POTENTIAL OUTCOME OF CASE AND REASONS FOR SETTLEMENT

Lead Counsel has carefully considered and evaluated, among other things, the relevant legal authorities and evidence to support the claims asserted against the Settling Securities Defendants, the time, expense and uncertainties of continued litigation, the likelihood of prevailing on these claims asserted, and the substantial monetary and equitable benefits of the Settlement. Based on an evaluation of the above factors as well as the substantial arm's-length settlement negotiations, the respective abilities of the Settling Securities Defendants to pay any judgment, and the likely appeals and subsequent proceedings necessary if the Settling Securities Plaintiffs were to prevail against the Settling Securities Defendants, Lead Counsel has concluded that the Settlement is fair, reasonable, adequate and in the overall best interests of the Class.

Settling Securities Defendants have denied and continue to deny that they have liability as a result of any or all of the allegations contained in the Action, and are entering into the Settlement in order to eliminate the burden, distraction, expense and uncertainty of further litigation.

ATTORNEYS' FEES, COSTS AND EXPENSES OF LEAD COUNSEL

Lead Counsel has not received any payment for its work in connection with the Action, nor has it been reimbursed for its out-of-pocket expenses. The fee requested by Lead Counsel would compensate counsel for their efforts in achieving the Settlement for the benefit of the Class and for their risk in undertaking this representation on a contingency basis. At the Settlement Hearing or at such other time as the Court may direct, Lead Counsel will apply to the Court for an award of attorneys' fees from the Securities Settlement Fund, in an amount not greater than 22% of the total Securities Settlement Fund, and for reimbursement of its expenses, in an amount of up to \$500,000. Lead Counsel, without further notice to the Class, may subsequently apply to the Court for fees and expenses incurred in connection with administering and distributing the Securities Settlement Fund to Settling Securities Plaintiffs (to be paid from the Securities Settlement Fund). Lead Counsel shall request that the fees and reimbursement of expenses be paid proportionally from each of the Securities Settlement Note, the Securities Settlement Stock Fund, and the Securities Settlement Cash Fund.

SETTLEMENT RELEASES AND BAR ORDER

If the Court grants the order approving the proposed Settlement and dismisses the Action with prejudice, the order will contain a "release" and "bar order." The "release" and "bar order" are set forth in the Stipulation on file with the Court but are generally summarized here.

Released Securities Parties and their Related Persons will be released from the Released Claims. The release applies to all claims, including Unknown Claims, and the Settling Securities Parties, Settling Securities Defendants' Counsel and Lead Counsel agree to waive the benefits of §1542 of the California Civil Code (and the benefits of any other law (including principles of common law) of any state or territory or other jurisdiction of the United States or of any jurisdiction outside of the United States that is similar, comparable or equivalent to §1542 of the California Civil Code), which provides:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

If the proposed Settlement is approved, Released Securities Parties and their Related Persons will also be protected from further liability in connection with other lawsuits, such as the claims currently being pursued against PwC, which relate to the claims being settled in the Action.

PLAN OF ALLOCATION

The Securities Settlement Fund will be distributed to Class Members who submit or are deemed to have submitted a valid and timely Proof of Claim under the Plan of Allocation set forth here.

To the extent there are sufficient funds in the Securities Settlement Fund, each Authorized Securities Claimant will receive an amount equal to the Authorized Securities Claimant's claim, as defined below. If, however, the amount in the Securities Settlement Fund is not sufficient to permit payment of the total claim of each Authorized Securities Claimant, then each Authorized Securities Claimant shall be paid the percentage of the Securities Settlement Fund that each Authorized Securities Claimant's claim bears to the total of the claims of all Authorized Securities Claimants. Payment in this manner shall be deemed conclusive against all Authorized Securities Claimants.

A claim will be calculated as follows:

Common Stock

Proposed Allocation:

1. For shares of Hanover Common Stock that were purchased on 5/4/99 through 8/29/01, and
 - a) sold prior to 8/30/01, the claim per share is \$0;
 - b) sold from 8/30/01 through 12/31/01, the claim per share is \$2.02;
 - c) sold from 1/2/02 through 1/17/02, the claim per share is \$3.56;
 - d) sold from 1/18/02 through 1/25/02, the claim per share is \$4.90;
 - e) sold from 1/28/02 through 8/1/02, the claim per share is \$6.90;
 - f) sold from 8/2/02 through 12/20/02, the claim per share is \$7.67;
 - g) sold on 12/23/02, the claim per share is \$7.87;
 - h) retained as of 12/23/02, the claim per share is \$7.95.
2. For shares of Hanover Common Stock that were purchased on 8/30/01 through 12/31/01, and
 - a) sold prior to 1/2/02, the claim per share is \$0;
 - b) sold from 1/2/02 through 1/17/02, the claim per share is \$1.54;
 - c) sold from 1/18/02 through 1/25/02, the claim per share is \$2.88;
 - d) sold from 1/28/02 through 8/1/02, the claim per share is \$4.88;
 - e) sold from 8/2/02 through 12/20/02, the claim per share is \$5.65;
 - f) sold on 12/23/02, the claim per share is \$5.85;
 - g) retained as of 12/23/02, the claim per share is \$5.93.
3. For shares of Hanover Common Stock that were purchased on 1/2/02 through 1/17/02, and
 - a) sold prior to 1/18/02, the claim per share is \$0;
 - b) sold from 1/18/02 through 1/25/02, the claim per share is \$1.34;
 - c) sold from 1/28/02 through 8/1/02, the claim per share is \$3.34;
 - d) sold from 8/2/02 through 12/20/02, the claim per share is \$4.11;
 - e) sold on 12/23/02, the claim per share is \$4.31;
 - f) retained as of 12/23/02, the claim per share is \$4.39.
4. For shares of Hanover Common Stock that were purchased on 1/18/02 through 1/25/02, and
 - a) sold prior to 1/28/02, the claim per share is \$0;
 - b) sold from 1/28/02 through 8/1/02, the claim per share is \$2.00;
 - c) sold from 8/2/02 through 12/20/02, the claim per share is \$2.77;
 - d) sold on 12/23/02, the claim per share is \$2.97;
 - e) retained as of 12/23/02, the claim per share is \$3.05.
5. For shares of Hanover Common Stock that were purchased on 1/28/02 through 8/1/02, and
 - a) sold prior to 8/2/02, the claim per share is \$0;
 - b) sold from 8/2/02 through 12/20/02, the claim per share is \$0.77;
 - c) sold on 12/23/02, the claim per share is \$0.97;
 - d) retained as of 12/23/02, the claim per share is \$1.05.

6. For shares of Hanover Common Stock that were purchased on 8/2/02 through 12/20/02, and
 - a) sold prior to 12/23/02, the claim per share is \$0;
 - b) sold on 12/23/02, the claim per share is \$0.20
 - c) retained as of 12/23/02, the claim per share is \$0.28.
7. For shares of Hanover Common Stock that were purchased on 12/23/02, and
 - a) sold prior to 12/24/02, the claim per share is \$0;
 - b) retained as of 12/23/02, the claim per share is \$0.08.

Debt Securities

Proposed Allocation:

1. For the 4.75% Convertible Senior Notes due 3/15/08 that were purchased from 5/4/99 through 8/29/01, and
 - a) sold prior to 8/30/01, the claim per note is \$0;
 - b) sold from 8/30/01 through 12/31/01, the claim per note is \$22.50;
 - c) sold from 1/2/02 through 1/17/02, the claim per note is \$35.00;
 - d) sold from 1/18/02 through 1/25/02, the claim per note is \$37.50;
 - e) sold from 1/28/02 through 8/1/02, the claim per note is \$61.20;
 - f) sold from 8/2/02 through 12/20/02, the claim per note is \$142.00;
 - g) sold on 12/23/02, the claim per note is \$143.20;
 - h) retained as of 12/23/02, the claim per note is \$145.00.
2. For the 4.75% Convertible Senior Notes due 3/15/08 that were purchased from 8/30/01 through 12/31/01, and
 - a) sold prior to 1/2/02, the claim per note is \$0;
 - b) sold from 1/2/02 through 1/17/02, the claim per note is \$12.50;
 - c) sold from 1/18/02 through 1/25/02, the claim per note is \$15.00;
 - d) sold from 1/28/02 through 8/1/02, the claim per note is \$38.70;
 - f) sold from 8/2/02 through 12/20/02, the claim per note is \$119.50;
 - g) sold on 12/23/02, the claim per note is \$120.70;
 - h) retained as of 12/23/02, the claim per note is \$122.50.
3. For the 4.75% Convertible Senior Notes due 3/15/08 that were purchased from 1/2/02 through 1/17/02, and
 - a) sold prior to 1/18/02, the claim per note is \$0;
 - b) sold from 1/18/02 through 1/25/02, the claim per note \$2.50;
 - c) sold from 1/28/02 through 8/1/02, the claim per note is \$26.20;
 - d) sold from 8/2/02 through 12/20/02, the claim per note is \$107.00;
 - e) sold on 12/23/02, the claim per note is \$108.20;
 - i) retained as of 12/23/02, the claim per note is \$110.00.
4. For the 4.75% Convertible Senior Notes due 3/15/08 that were purchased from 1/18/02 through 1/25/02, and
 - a) sold prior to 1/28/02, the claim per note is \$0;
 - b) sold from 1/28/02 through 8/1/02, the claim per note is \$23.70 ;
 - c) sold from 8/2/02 through 12/20/02, the claim per note is \$104.50;
 - d) sold on 12/23/02, the claim per note is \$105.70.
 - e) retained as of 12/23/02, the claim per note is \$107.50.
5. For the 4.75% Convertible Senior Notes due 3/15/08 that were purchased from 1/28/02 through 8/1/02, and
 - a) sold prior to 8/2/02, the claim per note is \$0;
 - b) sold from 8/2/02 through 12/20/02, the claim per note is \$80.80;
 - b) sold on 12/23/02, the claim per note is \$82.00
 - c) retained as of 12/23/02, the claim per note is \$83.80.
6. For the 4.75% Convertible Senior Notes due 3/15/08 that were purchased from 8/2/02 through 12/20/02, and
 - a) sold prior to 12/23/02, the claim per note is \$0;
 - b) sold on 12/23/02, the claim per note is \$1.20
 - c) retained as of 12/23/02, the claim per note is \$3.00.
7. For the 4.75% Convertible Senior Notes due 3/15/08 that were purchased on 12/23/02, and
 - a) sold prior to 12/24/02, the claim per note is \$0;
 - b) retained as of 12/23/02, the claim per note is \$1.80.

Total recovery for the notes shall not exceed 5% of the Securities Settlement Fund.

Call Options

1. For Call Options on Hanover Common Stock that were purchased on or after 5/4/99 but on or before 12/24/02 and
 - a) sold, exercised or expired on or before 8/29/01, the claim per Call option is \$0;
 - b) sold, exercised or expired on or after 8/30/01, the claim per Call option is the difference between the price paid for the Call option less the proceeds received upon the sale or settlement of the Call option.

Put Options

2. For Put options on Hanover Common Stock that were sold on or after 5/4/99 but on or before 12/24/02, and
 - a) Covered or expired on or before 8/29/01, the claim per Put option is \$0;
 - b) Covered or expired on or after 8/30/01, the claim per Put option is the difference between the amount paid upon settlement of the Put option contract less the initial proceeds received upon the sale of the Put option contract.

Total recovery of options shall not exceed 4% of the Securities Settlement Fund.

For Settling Securities Plaintiffs who held Hanover Securities at the beginning of the Class Period or made multiple purchases or sales during the Class Period, the first-in, first-out ("FIFO") method will be applied to such holdings, purchases and sales for purposes of calculating a claim with respect to each class of Hanover Securities eligible for relief. Under the FIFO method, sales of Hanover Securities during the Class Period will be matched, in chronological order, first against applicable Hanover Securities held at the beginning of the Class Period. The remaining sales of Hanover Securities during the Class Period will then be matched, in chronological order, against Hanover Securities purchased during the Class Period.

A Settling Securities Plaintiff will be eligible to receive a distribution from the Securities Settlement Fund only if that Settling Securities Plaintiff had a net loss, after all profits from transactions in Hanover Securities during the Class Period are subtracted from all losses. For the purpose of determining net loss, however, Hanover Securities purchased during the Class Period and not sold during the Class Period shall be treated as if sold on December 23, 2002, at the closing price for the applicable Hanover Security.

The Plan of Allocation was developed to provide for an equitable allocation of the Securities Settlement Fund. It is based on a preliminary basic estimate of damages and is not intended to (and does not) reflect an exact method of calculating damages.

The Court has reserved jurisdiction to allow, disallow or adjust the claim of any member of the Class on equitable grounds.

CONDITIONS TO SETTLEMENT

The Stipulation contains conditions, certain of which may be waived by Hanover, which must be satisfied for the parties to be required to complete the Settlement of the Action.

THE RIGHTS OF CLASS MEMBERS AND THE RIGHT TO BE EXCLUDED

If you purchased Hanover Securities during the Class Period then you are a member of the Securities Plaintiff Class. Members of the Securities Plaintiff Class have the following options with respect to the proposed Settlement:

- Remain a Class Member and Obtain Monetary Relief: If you wish to remain a member of the Securities Plaintiff Class, you may share in the Securities Settlement Fund according to the Plan of Allocation. To receive such relief Class members will need to timely and accurately complete the Proof of Claim. **HOWEVER, MEMBERS OF THE ERISA CLASS WHO ARE ENTITLED TO RELIEF UNDER THIS SETTLEMENT WILL HAVE THEIR PROOF OF CLAIM FILED ON THEIR BEHALF BY THE PLAN WITH RESPECT TO PLAN SHARES.**
- Request Exclusion from the Class and Receive No Relief Under the Settlement. If you do not wish to be a member of the Securities Plaintiff Class – and therefore not participate in the Settlement – you may request to be excluded. If you exclude yourself, you will not be bound by the Final judgment. However, you will not be entitled to any share of the Securities Settlement Fund. To be excluded, you must send a written letter entitled "Request for Exclusion" which must be postmarked on or before January 23, 2004 and addressed to:

Hanover Securities Litigation
c/o Gilardi & Co. LLC
P.O. Box 990
Corte Madera, CA 94976-0990

In order to be valid, your Request for Exclusion must: (a) set forth the name and address and telephone number of the Person or entity requesting exclusion; (b) state that such Person or entity "requests exclusion from the Class in *Pirelli Armstrong Tire Corporation Retiree Medical Benefits Trust, et al. vs. Hanover Compressor Co., No. H-02-0410*" the number of shares of Hanover Securities you purchased during the Class Period, and the price(s) paid and, if sold, received therefore; and the dates of each such transaction, and (c) be signed by such Person or

entity. The Request for Exclusion shall not be accepted by the Court or be effective unless it provides all of the foregoing information and is postmarked within the time period stated above.

DO NOT REQUEST EXCLUSION IF YOU WISH TO SHARE IN THE SECURITIES SETTLEMENT FUND.

Any Class Member who does not timely submit a properly completed Request for Exclusion shall be bound by the proposed Stipulation, and by any judgment or determination of the Court affecting the Class.

SUBMISSION AND PROCESSING OF PROOFS OF CLAIM

Except as to holdings and transactions in the Plan (discussed below) to receive any distribution from the Securities Settlement Fund, you need to complete and sign the accompanying Proof of Claim and send it by prepaid first class mail postmarked on or before March 12, 2004, addressed as follows:

Hanover Securities Litigation
c/o Gilardi & Co. LLC
Claims Administrator
P.O. Box 990
Corte Madera, CA 94976-0990

IF YOU DO NOT SUBMIT A PROPER PROOF OF CLAIM FORM, YOU WILL NOT BE ENTITLED TO ANY SHARE OF THE SETTLEMENT CONSIDERATION.

If you purchased or acquired Hanover Common Stock in an account in the Plan (including through employer matching contributions), a Proof of Claim will automatically be submitted on your behalf for these holdings by the Plan. You will still, however, be required to submit a Proof of Claim for purchases of Hanover Common Stock outside the Plan. NOTE: IF YOU ELECT TO BE EXCLUDED FROM THE CLASS THIS EXCLUSION WILL APPLY TO CLAIMS WITH RESPECT TO ALL OF YOUR HANOVER SECURITIES PURCHASES, WHETHER WITHIN OR OUTSIDE THE PLAN.

If you are a Class member and you do not properly exclude yourself from the Class, you will be bound by the Stipulation and the Final judgment of the Court dismissing this Action as against the Settling Securities Defendants, even if you do not submit a Proof of Claim. All Proofs of Claim must be submitted by the date specified in this Notice unless such period is extended by order of the Court.

Each Person or entity submitting a Proof of Claim shall be deemed to have submitted to the jurisdiction of the Court with respect to such Person's claim.

SETTLEMENT HEARING AND ABILITY TO APPEAR AND/OR OBJECT TO THE SETTLEMENT

Each Class member who does not submit a timely Request for Exclusion will be represented by Lead Counsel, including at the Settlement Hearing, unless he or she enters an appearance, personally or through counsel of his or her own choice at his or her own expense. You are not required to retain your own counsel, but if you choose to do so, such counsel must file an appearance on your behalf on or before January 23, 2004, and must serve copies of such appearance on the attorneys listed below.

Class members who comply with the procedures set forth below for making an appearance (personally or through counsel) may be heard to the extent allowed by the Court regarding the fairness, reasonableness, and adequacy of the Settlement, the Plan of Allocation, or the application for an award of attorneys' fees and reimbursement of expenses; provided, however, that in no event shall any Person be heard regarding the Settlement, the Plan of Allocation, or Lead Counsel's application for attorneys' fees and expenses, and in no event shall any paper or brief submitted by any such Person be accepted or considered by the Court, unless, by January 23, 2004, such Person (A) files with the Clerk of the Court, United States District Court, Southern District of Texas, Houston Division, 5300 Federal Building, 515 Rusk Avenue, Houston, TX 77002 notice of such Person's intention to appear, showing proof of such Person's membership in the Class, including the number of Hanover Securities purchased during the Class Period, and providing a statement that indicates the basis for such opposition, along with any documentation in support of such objection, and (B) simultaneously serves copies of such notice, proof, statement, and documentation, together with copies of any other papers or briefs such Person files with the Court, in person or by prepaid first-class mail or overnight delivery mail upon Lead Counsel:

Darren J. Robbins
MILBERG WEISS BERSHAD
HYNES & LERACH LLP
401 B Street, Suite 1700
San Diego, CA 92101

Counsel for Settling Securities Plaintiffs and Lead Plaintiffs Pirelli Armstrong Tire Corporation Retiree Medical Benefits Trust, Plumbers & Steamfitters, Local 137 Pension Fund, O. Bryant Lewis, 720 Capital Management, LLC and Specialists DPM

and on Settling Defendants' Counsel:

Kevin T. Abikoff
HUGHES HUBBARD & REED LLP
1775 I Street, N.W.
Washington, DC 20006-2401

Counsel for Settling Defendant Hanover Compressor Company

NOTICE TO BANKS, BROKERS OR OTHER NOMINEES

If you engaged in purchase and/or sale transactions in Hanover Securities during the Class Period as a nominee for the benefit of another, you are directed to provide a copy of this Notice to the beneficial owner of such Hanover Securities, postmarked no later than 10 days after receipt of this Notice or to provide within 10 days of receipt of this Notice the names and addresses of such Persons to the Claims Administrator, in which case the beneficial owner will be sent a copy of the Notice. You may obtain reimbursement of your reasonable and actual out-of-pocket disbursements that would not have been made but for this request by submitting an itemized statement to: Hanover Securities Litigation, c/o Gilardi & Co. LLC, P.O. Box 990, Corte Madera, CA 94976-0990, Telephone (800) 447-7657.

FURTHER INFORMATION

Further information regarding the Action and this Notice may be obtained by contacting Lead Counsel: Rick Nelson, Milberg Weiss Bershad Hynes & Lerach LLP, 401 B Street, Suite 1700, San Diego, CA 92101, Telephone (619) 231-1058.

All inquiries regarding this Notice or the Proof of Claim form should be made in writing to: Hanover Securities Litigation, c/o Gilardi & Co. LLC, P.O. Box 990, Corte Madera, CA 94976-0990, or by telephone (800) 447-7657. All other inquiries regarding this Action should be made to Lead Counsel at the address listed above.

The pleadings and other records of the Action may be examined and copied at any time during regular office hours at the Office of the Clerk, United States District Court, Southern District of Texas, Houston Division, 515 Rusk Avenue, Houston, Texas 77002.

Please Do Not Telephone The Court or The Clerk's Office Regarding This Notice.

DATED: December 5, 2003

BY ORDER OF THE COURT
UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS