

NATCO GROUP INC  
Form DEF 14A  
March 26, 2008  
Table of Contents

## SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

**NATCO Group Inc.**

(Name of Registrant as Specified in its Charter)

Edgar Filing: NATCO GROUP INC - Form DEF 14A

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Edgar Filing: NATCO GROUP INC - Form DEF 14A

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

**Table of Contents**

**NATCO GROUP INC.**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON MAY 8, 2008**

To Our Stockholders:

We are pleased to invite you to the 2008 Annual Meeting of Stockholders of NATCO Group Inc., a Delaware corporation, to be held at the principal executive offices of the Company, 11210 Equity Drive, Houston, Texas 77041, on the 8th day of May, 2008, at 10:00 a.m., local time. At the meeting, stockholders will be asked to consider the following proposals:

- (1) To elect three Class I members to the Board of Directors;
- (2) To ratify the appointment of KPMG LLP as independent registered public accounting firm for the year ending December 31, 2008; and
- (3) To transact such other business as may properly come before the annual meeting or any adjournment or postponement of the meeting.

Further information concerning the annual meeting is contained in the attached proxy statement.

You are entitled to vote only if you were a Company stockholder as of the close of business on March 11, 2008, the record date for the annual meeting. If you are a participant in the NATCO Group Profit Sharing and Savings Plan, your vote will constitute voting instructions to the Trustee of the plan concerning shares held in your account.

**Your vote is important. On behalf of the Board of Directors, we urge you to vote as soon as possible to ensure your representation at the annual meeting. To vote your shares, you may use the enclosed proxy card or attend the meeting and vote in person. If you are a common stockholder, you also may vote using the Internet or telephone. Please review the instructions in the proxy statement or on the proxy card regarding each of these voting options.**

Thank you for your continued support and interest in NATCO Group Inc.

Sincerely,

Katherine P. Ellis  
*Senior Vice President, Corporate Secretary & General Counsel*

March 26, 2008

**Table of Contents**

**NATCO Group Inc.**

**11210 Equity Drive**

**Houston, Texas 77041**

**PROXY STATEMENT**

**for the**

**ANNUAL MEETING OF STOCKHOLDERS**

**Table of Contents**

<u>GENERAL INFORMATION ABOUT THE MEETING AND YOUR VOTE</u>	2
<u>ITEMS TO BE VOTED ON BY STOCKHOLDERS</u>	6
<u>Proposal 1: Election of Directors</u>	6
<u>Proposal 2: Ratification of Appointment of Independent Registered Public Accounting Firm</u>	6
<u>BOARD OF DIRECTORS</u>	7
<u>Nominees for Class I Directors for Three-Year Terms to Expire in 2011</u>	7
<u>Continuing Directors</u>	8
<u>Director Compensation</u>	9
<u>CORPORATE GOVERNANCE</u>	10
<u>Director Independence</u>	10
<u>Board and Committee Meetings: Annual Meeting Attendance</u>	10
<u>Audit Committee: Audit Committee Financial Expert</u>	10
<u>Governance, Nominating &amp; Compensation Committee</u>	10
<u>Health, Safety &amp; Environment Committee</u>	11
<u>Compensation Committee Interlocks and Insider Participation</u>	11
<u>Selection of Nominees for the Board of Directors</u>	11
<u>Code of Business Conduct and Ethics</u>	13
<u>Executive Sessions of the Board of Directors and the Presiding Director</u>	13
<u>Stockholder Communications: Reporting Concerns Regarding Accounting Matters</u>	13
<u>Obtaining Copies of Committee Charters, Our Business Ethics Policies or Other Governance Documents</u>	13
<u>DIRECTORS AND EXECUTIVE OFFICERS</u>	14
<u>SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS</u>	16
<u>COMPENSATION DISCUSSION &amp; ANALYSIS</u>	18
<u>Objectives of the Company's Compensation Programs</u>	18
<u>Compensation Philosophy</u>	18
<u>Elements of Compensation</u>	20
<u>Employment, Termination and Change of Control Arrangements</u>	25
<u>EXECUTIVE COMPENSATION</u>	26
<u>Summary Compensation Table</u>	26
<u>Grants of Plan-Based Awards in 2007</u>	27
<u>Outstanding Equity Awards At Fiscal Year-End 2007</u>	29
<u>Options Exercised and Stock Vested in 2007</u>	30
<u>Employment Arrangements for Certain Named Executive Officers</u>	31
<u>Potential Payments upon Termination or Change in Control</u>	36
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	39
<u>COMMITTEE REPORTS</u>	40
<u>Governance, Nominating &amp; Compensation Committee Report</u>	40
<u>Audit Committee Report</u>	40
<u>MISCELLANEOUS</u>	42

Edgar Filing: NATCO GROUP INC - Form DEF 14A

<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	42
<u>Delivery of Proxy Materials to Stockholders Sharing an Address</u>	42
<u>Stockholder Proposals for the 2009 Annual Meeting</u>	42
<u>Other Matters</u>	43

*This proxy statement and form of proxy are being first sent to stockholders on or about April 2, 2008.*

**Table of Contents**

**GENERAL INFORMATION ABOUT THE MEETING AND YOUR VOTE**

The following information is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of NATCO Group Inc. to be voted at the annual meeting of stockholders of the Company, which will be held at the offices of the Company, 11210 Equity Drive, Houston, Texas 77041, in the first floor training center, on the 8th day of May 2008 at 10:00 a.m., local time.

**1. What am I voting on at the annual meeting?**

- (1) To elect three Class I members to the Board of Directors;
- (2) To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the year ending December 31, 2008; and
- (3) To transact such other business as may properly come before the annual meeting or any adjournment or postponement of the meeting.

**2. Who is entitled to vote at the annual meeting?**

Stockholders at the close of business on March 11, 2008, the record date, are entitled to vote at the annual meeting. On March 11, 2008, there were outstanding 18,722,418 shares of common stock, par value \$.01 per share, and 9,915 shares of Series B Redeemable Convertible Preferred Stock, par value \$.01 per share, which constitute the only outstanding voting securities of NATCO. Each outstanding share of common stock is entitled to one vote. Each outstanding share of Series B Convertible Preferred Stock is entitled to a number of votes equal to the number of shares of common stock into which the Series B Convertible Preferred Stock would convert if converted on the record date, March 11, 2008. If converted on the record date, the outstanding Series B Convertible Preferred Stock would have converted to an aggregate of 1,270,338 shares of common stock, equating to 128.123 votes per preferred share. The holders of outstanding shares of Series B Convertible Preferred Stock and holders of outstanding common stock shall vote together as one class ( Voting Stock ) on all matters submitted to a vote of NATCO's stockholders at the meeting.

**3. Who can attend the annual meeting?**

All NATCO stockholders as of the Record Date are invited to attend the annual meeting. If your shares are held in the name of a nominee (for example, through a bank or broker), you will need to bring a proxy or letter from that nominee that confirms you are the beneficial owner of those shares.

**4. When will the proxy statement and proxy card be mailed to NATCO stockholders?**

The proxy statement and proxy card will be mailed to NATCO stockholders on or about April 2, 2008.

**5. How do I vote?**

The answer depends on whether you hold common stock or Series B Convertible Preferred Stock.

**Common Stock Voting Instructions:** For holders of common stock, if your shares are registered in the name of a nominee, follow the instructions provided by your nominee to vote your shares. If your shares are registered in your name:



*You may vote in person at the annual meeting.*

*You may vote by telephone.* You may vote by telephone regardless of whether you receive your annual meeting materials through the mail or over the Internet. Simply follow the instructions on your proxy card or electronic access notification. If you vote by telephone, you should not vote over the Internet or mail in your proxy card.

*You may vote over the Internet.* You may vote over the Internet regardless of whether you receive your annual meeting materials through the mail or over the Internet. Simply follow the instructions on your proxy card or electronic access notification. If you vote over the Internet, you should not vote by telephone or mail in your proxy card.

---

**Table of Contents**

*You may vote by mail.* If you received a proxy card through the mail, simply complete and sign your proxy card and mail it in the enclosed prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct. If no voting specification is made on your signed and returned proxy card, C. Andrew Smith, Bradley P. Farnsworth or Katherine P. Ellis, the persons named as proxy holders on the proxy card, will vote FOR the election of the director nominees and FOR the ratification of KPMG LLP. If any other business is brought before the meeting, any unspecified proxies will be voted in accordance with the judgment of the proxy holders voting those shares. If you vote by mail, you should not vote by telephone or over the Internet.

**Series B Convertible Preferred Stock Voting Instructions:** For holders of Series B Convertible Preferred Stock, if your shares are registered in the name of a nominee, follow the instructions provided by your nominee to vote your shares. If your shares are registered in your name:

*You may vote in person at the annual meeting.*

*You may vote by mail.* If you received a proxy card through the mail, simply complete and sign your proxy card and mail it in the enclosed prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct. If no voting specification is made on your signed and returned proxy card, C. Andrew Smith, Bradley P. Farnsworth or Katherine P. Ellis, the persons named as proxy holders on the proxy card, will vote FOR the election of the director nominees and FOR the ratification of KPMG LLP. If any other business is brought before the meeting, any unspecified proxies will be voted in accordance with the judgment of the proxy holders voting those shares.

Holders of Series B Convertible Preferred Stock may NOT vote by telephone or the Internet.

**6. What happens if additional matters are presented at the meeting?**

Other than the two items of business described in this proxy statement, we are not aware of any other business to be acted upon at the meeting. If you grant a proxy, the persons named as proxy holders will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any reason one or more of our nominees is not available as a candidate for director, the persons named as proxy holders may vote your proxy for such other candidate or candidates as the Board may nominate.

**7. Can I change my vote once I vote?**

Yes. You have the right to change or revoke your proxy at any time before the annual meeting by (a) notifying NATCO's Corporate Secretary in writing to the address specified on the first page of this proxy statement, (b) returning a later-dated proxy card, or (c) if you hold common stock, entering a later-dated telephone or Internet vote. You also may change or revoke your proxy by voting in person at the annual meeting. Please note that, if you hold your shares through the NATCO Group Profit Sharing and Savings Plan (the NATCO 401(k) Plan), any changes or revocations of voting instructions to the Trustee of the NATCO 401(k) Plan must be received by our proxy tabulator, BNY Mellon Shareowner Services or its agent, before midnight (Eastern daylight time) on May 6, 2008.

**8. Who counts the vote?**

A representative of BNY Mellon Shareowner Services will tabulate the votes and will act as the inspector of election.

**9. Is my vote confidential?**

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects voting privacy. Your vote will not be disclosed either within the Company or to third parties, except: (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote and (3) to facilitate a successful proxy solicitation.



---

**Table of Contents**

**10. What shares are included in the proxy card?**

Your proxy card represents all shares of NATCO common stock or preferred stock that are registered in your name and any shares you hold in the NATCO 401(k) Plan. If your shares are held through a nominee, you will receive either a voting instruction form or a proxy card from the nominee to vote your shares.

**11. How will the Trustee of the NATCO 401(k) Plan vote?**

Each participant in the NATCO 401(k) Plan will instruct the Trustee how to vote the shares of NATCO common stock credited to the participant's account in each plan. This instruction also applies to a proportionate number of those shares of NATCO common stock allocated to participant's accounts but for which voting instructions are not timely received by the Trustee. These shares are referred to as Non-Directed shares. Each participant who gives the Trustee such an instruction acts as a named fiduciary for the plan under the Employee Retirement Income Security Act of 1974, as amended.

**12. What constitutes a quorum?**

As of the record date, 18,722,418 shares of NATCO common stock and 9,915 shares of NATCO Series B Convertible Preferred Stock, having voting rights equivalent to 1,270,338 shares of common stock, were outstanding. A majority of the outstanding Voting Stock present in person or by proxy at the annual meeting is required to constitute a quorum to transact business at the annual meeting or at any adjournment or postponement of the annual meeting. However, the absence of a quorum of the holders of common stock shall not affect the exercise by the holders of Series B Convertible Preferred Stock of any voting rights they may have as a separate class. If you vote in person, by telephone, over the Internet or by returning a properly executed proxy card, you will be considered a part of that quorum. Abstentions and broker non-votes (that is, when a broker does not have authority to vote on a specific issue) will be treated as present for the purpose of determining a quorum but as unvoted shares for the purpose of determining the approval of any matter submitted to the stockholders for a vote. Abstentions and broker non-votes will have no effect on the election of directors or matters decided by a plurality vote.

If a quorum is not present, in person or by proxy, the meeting may be postponed or adjourned from time to time until a quorum is obtained. Each outstanding share of common stock entitled to vote under the provisions of the Company's restated certificate of incorporation will be entitled to one vote on each matter submitted to a vote at the meeting, and each outstanding share of Series B Convertible Preferred Stock will be entitled to 128.123 votes per preferred share.

**13. What vote is required for passage of each of the proposals up for consideration at the annual meeting, and how are votes counted?**

- (1) *Election of directors* Under NATCO's bylaws, the three nominees receiving the greatest number of votes will be elected as directors at the annual meeting.
- (2) *Ratification of auditors* Submission of the appointment of KPMG LLP to NATCO's stockholders is not required. However, the appointment will be deemed ratified if votes cast in its favor exceed votes cast against ratification.

In the election of directors, you may vote **FOR** either or both of the nominees or your vote may be **WITHHELD** with respect to one of the nominees. For the election of directors, votes withheld do not affect whether a nominee has received sufficient votes to be elected. You may not cumulate your votes. Thus, a stockholder is not entitled to cumulate his votes and cast them all for any single nominee or to spread his votes, so cumulated, among more than one nominee.

For the other item of business, you may vote **FOR**, **AGAINST** or **ABSTAIN**. If you elect to **ABSTAIN**, the abstention has the same effect as a vote **AGAINST**. For the purpose of determining whether the stockholders have approved matters other than the election of directors, abstentions are



---

**Table of Contents**

treated as shares present or represented and voting, and abstaining has the same effect as a negative vote. Shares held by brokers who do not have discretionary authority to vote on a particular matter and who have not received voting instructions from their customers are not counted or deemed to be present or represented for the purpose of determining whether stockholders have approved that matter, but they are counted as present for the purpose of determining the existence of a quorum. Shares as to which voting instructions are given as to at least one of the matters to be voted on are also deemed to be represented. If the proxy states how the shares are to be voted, and in the absence of instructions by the stockholder, such shares will be deemed to be represented at the meeting.

**14. Who will bear the cost of soliciting votes for the meeting?**

The Company is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. If you choose to access the proxy materials and/or vote over the Internet, you are responsible for Internet charges you may incur. If you choose to vote by telephone, you are responsible for telephone charges you may incur. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities other than reasonable out-of-pocket expenses directly related to such solicitation. Arrangements may also be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of stock held of record by such persons, and the Company may reimburse them for reasonable out-of-pocket expenses of such solicitation.

**15. Where can I find the voting results of the meeting?**

We intend to announce preliminary voting results at the meeting. We will publish the final results in a press release or in our Quarterly Report on Form 10-Q for the second quarter of 2008. You can obtain a copy of the Form 10-Q by logging on to our website at <http://www.natcogroup.com>, by calling the Securities and Exchange Commission (the SEC) at 1-800-SEC-0330 for the location of the nearest public reference room, or through the EDGAR system at <http://www.sec.gov>.

**16. How may I obtain the Company's Form 10-K and other financial information?**

A copy of our Annual Report on Form 10-K for the year ended December 31, 2007 is enclosed. Stockholders may request another free copy of our 2007 Form 10-K from:

NATCO Group Inc.

Attn: Investor Relations

11210 Equity Drive

Houston, TX 77041

(713) 849-7500

Alternatively, current and prospective investors can access the 2007 Form 10-K through the Investor Relations / SEC Filings page of our website at: <http://www.natcogroup.com>. We also will furnish any exhibit to the 2007 Form 10-K as specifically requested.

**17. May I receive future stockholder communications over the Internet?**

Yes. You may consent to access future stockholder communications (for example, annual reports, proxy statements and interim communications) from us or on our behalf over the Internet instead of receiving those documents in the mail. Providing such communications over the Internet will reduce our printing and postage costs and the number of paper documents you would otherwise receive. If you give your consent, in the future, when, and if, material is available over the Internet, you will receive notification that will contain the Internet location of the material. There is no cost to you for this service other than charges you may incur from your Internet, telephone and/or cable provider. Once

## Edgar Filing: NATCO GROUP INC - Form DEF 14A

you give your consent, it will remain in effect until you inform us otherwise. To give your consent, if your shares are registered in your name, follow the prompts when you vote by telephone or over the

---

**Table of Contents**

Internet or check the appropriate box located at the bottom of the proxy card when you vote by mail. If your shares are registered in the name of a nominee, follow the directions provided by such nominee if this option is available. Paper copies of stockholder communications may be requested by contacting the Corporate Secretary at (713) 849-7500.

A copy of the list of stockholders entitled to vote at the annual meeting will be available for inspection by qualified stockholders for proper purposes at our principal executive offices (11210 Equity Drive, Houston, Texas 77041) during normal business hours beginning on April 28, 2008 and at the annual meeting.

**Important Notice Regarding the Availability of Proxy Materials for the**

**Stockholder Meeting to be Held on Thursday, May 8, 2008.**

**The Company's 2008 Proxy Statement and the Annual Report to Stockholders for the year ended 2007 are also available at <http://www.natcogroup.com>. You also may access the proxy statement and annual report on-line by logging on to <http://bnymellon.mobular.net/bnymellon/NTG>.**

**ITEMS TO BE VOTED ON BY STOCKHOLDERS**

**Proposal 1: Election of Directors**

Our bylaws provide that the Board of Directors will be composed of between six and ten members. The Board currently has seven members serving in three classes who are elected by holders of our Voting Stock, with three members in Class I, two members in Class II and two members in Class III. Class I, Class II and Class III directors each are elected for terms of three years, currently expiring in 2008, 2009 and 2010, respectively.

John U. Clarke, Patrick M. McCarthy and Thomas C. Knudson currently serve as Class I directors. Mr. Clarke, Mr. McCarthy and Mr. Knudson are nominated for election at the annual meeting to fill the expiring Class I positions on the Board of Directors. If elected, each will hold office for a three-year term expiring at the annual meeting of stockholders in 2011, and until his respective successor has been duly elected and qualified, or until his earlier resignation or removal.

In accordance with the Company's restated certificate of incorporation, as amended, and bylaws, the affirmative vote of a plurality of the votes cast by holders of Voting Stock entitled to vote in the election of directors at the annual meeting is required for the election of a nominee as director. Accordingly, although abstentions and broker non-votes are considered shares present at the meeting for the purpose of determining a quorum, they will have no effect on the election of directors.

The Board of Directors has no reason to believe that the nominees for election as directors will not be candidates or will be unable to serve, but if for any reason either nominee is unavailable as a candidate or unable to serve when the election occurs, the persons designated as proxy holders in the enclosed proxy card, in the absence of contrary instructions, will in their discretion vote the proxies for the election of a substitute nominee selected by the Board of Directors.

**The Board of Directors recommends that you vote FOR the election of the nominees listed below under Board of Directors Nominees for Class I Directors for Three-Year Terms to Expire in 2011. Properly completed proxies will be so voted unless authority to vote in the election of directors is withheld.**

**Proposal 2: Ratification of Appointment of Independent Registered Public Accounting Firm**

The Audit Committee of our Board of Directors has appointed KPMG LLP, an independent registered public accounting firm, to audit our consolidated financial statements for the year ending December 31, 2008.



---

**Table of Contents**

KPMG LLP has audited our consolidated financial statements since 1989. In making its appointment of KPMG LLP as the Company's independent registered public accounting firm, the Audit Committee considered, among other things, the firm's capabilities with respect to satisfying the Company's needs for international presence, continuity of engagement personnel, reputation, responsiveness and total cost of service. We are advised that no member of KPMG LLP has any direct or material indirect financial interest in the Company or, during the past three years, has had any connection with us in the capacity of promoter, underwriter, voting trustee, director, officer or employee. Ratification of this appointment shall be effective upon receiving the affirmative vote of the holders of a majority of the Voting Stock present or represented by proxy and entitled to vote at the annual meeting. See Committee Reports Audit Committee Report for a discussion of KPMG LLP's engagement, including its independence and fees paid by us to KPMG in 2006 and 2007.

**The Board of Directors recommends a vote FOR ratification of this appointment. If a stockholder does not specify a choice on such stockholder's proxy, properly completed proxies will be so voted.**

In the event the appointment is not ratified, the Audit Committee will reconsider the appointment of KPMG LLP and may retain that firm or other independent registered public accounting firms without re-submitting the matter to our stockholders. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of the Company and its stockholders. Representatives of KPMG LLP are expected to be present at the annual meeting and will be offered the opportunity to make a statement if they desire to do so. The representatives of KPMG LLP also will be available to answer questions and discuss matters pertaining to the Reports of Independent Registered Public Accounting Firm contained in the audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007.

**BOARD OF DIRECTORS**

**Nominees for Class I Directors for Three-Year Terms to Expire in 2011**

Information concerning the nominees for election as directors at the annual meeting, including each nominee's age as of March 11, 2008, position with the Company and business experience during the past five years follows.

*Class I Directors*

*John U. Clarke, 55.* Chairman of the Board since July 2004 and Chief Executive Officer since December 2004. Mr. Clarke has served as a Director of NATCO since February 2000, served as Chairman of the Governance, Nominating & Compensation Committee from December 2002 to September 2004 and was interim Chief Executive Officer of NATCO from September 2004 to December 2004. Prior to such time, from May 2001, Mr. Clarke served as President of Concept Capital Group, a financial and strategic advisory firm originally founded by Mr. Clarke in 1995. Mr. Clarke is a Director and member of the audit and human resources committees of Harvest Natural Resources, an international oil and gas company.

*Thomas C. Knudson, 61.* Director and member of the Governance, Nominating & Compensation Committee since April 2005; Chair of the Governance, Nominating & Compensation Committee since May 2005; member of the Health, Safety & Environment Committee since July 2005. Mr. Knudson serves as President of Tom Knudson Interests LLC, providing consulting services in the areas of energy, sustainable development and leadership. From 1975 to his retirement in January 2004, Mr. Knudson served in various capacities with ConocoPhillips Inc., including Senior Vice President and member of the executive and management committees of Conoco and ConocoPhillips from 2000 to January 2004, Chairman and Chief Executive Officer of Conoco Exploration Production Europe Ltd. from 1997 to 2000 and Vice President, Conoco Natural Gas and Gas Products from 1994 to 1997. Mr. Knudson is the non-executive Chairman of the board of directors of Bristow Group, Inc., a provider of helicopter transportation services to the offshore oil and gas industry.

---

## **Table of Contents**

*Patrick M. McCarthy, 62.* Director since February 1998, President since December 1997 and Chief Operating Officer since June 2006. Mr. McCarthy served as Executive Vice President of NATCO, with marketing and operations responsibilities, from November 1996 to December 1997 and as Senior Vice President Marketing from June 1994 to November 1996. Prior to joining us in June 1994, Mr. McCarthy was Vice President Worldwide Oil and Gas at ABB Lummus Crest, an engineering and construction company.

### **Continuing Directors**

The following sets forth information concerning the Class II and Class III directors of the Company whose present terms of office will expire at the 2009 and 2010 annual meetings of stockholders, respectively.

#### *Class II Directors*

*Keith K. Allan, 67.* Director since February 1998. Mr. Allan has served as Chair of the Health, Safety & Environment Committee since July 2005, and as an Audit Committee member since 1998. He was Chair of the Audit Committee from 1998 to May 2005. Mr. Allan was a Director of NATCO (U.K.) Ltd. from October 1996 to January 1998. From February 1993 to August 1996, he was Technical Director in the North Sea for Shell U.K. Exploration and Production. From 1965 to February 1993, he served in a number of positions for Royal Dutch/Shell Group.

*George K. Hickox, Jr., 49.* Director and member of the Audit Committee since November 1998. He served as Chairman of the Governance, Nominating & Compensation Committee from September 2004 to May 2005. Mr. Hickox was Chairman and Chief Executive Officer of The Wisser Oil Company, a publicly-traded, independent oil and gas exploration and production company, from May 2000 to June 2004. He has been a member of Heller Hickox & Co., a company specializing in energy investments, since September 1991. Mr. Hickox formerly served as a Director of The Cynara Company prior to its acquisition by NATCO in November 1998. He presently serves as an officer or director of several privately-held companies.

#### *Class III Directors*

*Thomas R. Bates, Jr., 58.* Director and member of the Governance, Nominating & Compensation Committee since March 2003; and member of the Health, Safety & Environment Committee since July 2005. Mr. Bates has served as Managing Director of Lime Rock Management LP, Houston, Texas, an energy-focused private equity firm, since October 2001. Mr. Bates previously served as Senior Vice President, then President, of the Discovery Group of Baker Hughes, Inc. from June 1998 to January 2000, as CEO and President of Weatherford Enterra, Inc. from June 1997 to May 1998 and as President of the Anadrill Division of Schlumberger Ltd. from March 1992 to May 1997. Mr. Bates currently serves as a Director and member of the nominating and governance and the compensation committees of Hercules Offshore, Inc., a provider of offshore drilling and liftboat services, and as a Director, Lead Director and member of the audit, compensation and nominating committees of T-3 Energy Services, Inc., a provider of oilfield products and services. He also serves as a Director of several privately-held companies.

*Julie H. Edwards, 49.* Director and member of the Audit Committee since December 2004, and Chair of the Audit Committee since May 2005. Mrs. Edwards served as Senior Vice President of corporate development for Southern Union Company, an entity involved in the transportation, distribution and storage of natural gas in the US, from November 2006 to January 2007. She was Senior Vice President and Chief Financial Officer of Southern Union from July 2005 to November 2006. Mrs. Edwards was Executive Vice President-Finance and administration and Chief Financial Officer of Frontier Oil Corp. from April 2000 to June 2005, Senior Vice President and Chief Financial Officer of Frontier from August 1994 to April 2000, and Vice President, Secretary and Treasurer from March 1991 to August 1994. Previously, she had worked at Smith Barney, Harris Upham & Co., Inc., in corporate finance, and had worked in the oil and gas industry as a geologist. Mrs. Edwards also is a Director and a member of the audit, finance, and nominating and corporate governance committees of Noble Corp., a provider of diversified drilling services for the oil and gas industry, and a Director and member of the audit and corporate governance committees of ONEOK, Inc., a natural gas company.

**Table of Contents****Director Compensation**

Directors who are our employees do not receive a retainer or fees for service on the Board or any of its committees.

The Governance, Nominating & Compensation, or GNC, Committee considered director compensation in May 2007, and, based on a review of peer company board compensation using published reports and market data, recommended changes to non-employee director compensation commencing in June 2007. The Board approved the GNC Committee recommendation effective June 2007, and the Company currently pays independent directors an annual fee of \$40,000 and a fee of \$1,500 per meeting for attendance at each meeting of the Board and its Committees (including telephonic meetings). Chairs of the Audit, GNC and Health, Safety & Environment, or HSE, Committees are paid an additional annual fee of \$15,000, \$10,000 and \$6,000, respectively.

Pursuant to the Company's stock incentive plans, in June 2007 the Company granted 2,500 restricted shares to each of its five independent directors. These restricted shares vest 100% on June 1, 2008, but are forfeitable if service discontinues prior to this date (other than for death, disability or retirement on reaching age 68). The restrictions shall lapse automatically in the event of a change in control. The Company will recognize expense of \$550,000 related to these grants ratably over the vesting period. Directors also are reimbursed for reasonable out-of-pocket expenses related to the performance of their duties as directors. A summary of compensation earned by our nonemployee directors for their service during 2007 is set forth below.

Name	Fees	Stock	All Other	Total (\$)
	Earned or Paid in Cash (\$)			
Keith K. Allan	\$ 74,583	\$ 96,464	(2)	\$ 171,047
Thomas R. Bates, Jr.	\$ 64,500	\$ 96,464	(2)	\$ 160,964
Julie H. Edwards	\$ 80,333	\$ 96,464	(2)	\$ 176,797
George K. Hickox, Jr.	\$ 69,000	\$ 96,464	(2)	\$ 165,464
Thomas C. Knudson	\$ 74,958	\$ 96,464	(2)	\$ 171,422
Herbert S. Winokur, Jr. (3)	\$ 23,166	\$ 29,383	(2)	\$ 52,549

- (1) Represents amortization for 2007 of the award date fair value computed in accordance with Statement of Financial Accounting Standards No. 123R. An aggregate of 15,000 and 12,500 shares of restricted stock whose value is reported in the table above were awarded under the Company's stock incentive plans on June 1, 2006 and June 1, 2007, respectively. Restrictions on the 2006 awards lapsed on June 1, 2007. Restrictions on the 2007 awards will lapse on June 1, 2008, provided the recipient has continuously served as a director of the Company since the award date, and subject to the possibility of earlier lapse pursuant to applicable award agreement or incentive plan. Notwithstanding the foregoing, the restrictions shall lapse on the recipient's termination from the Board due to his death, disability (as determined by the GNC Committee) or retirement from the Board on or after the attainment of the age of 68, or upon the occurrence of a change in control. At December 31, 2007, there were outstanding 2,500 shares of restricted stock issued to each nonemployee director then serving, as to which restrictions had not then lapsed.
- (2) The aggregate amount of perquisites or other personal benefits for each director during 2007 is less than \$10,000.
- (3) Mr. Winokur served as a director from January 1, 2007 to his retirement in May 2007.

---

**Table of Contents**

**CORPORATE GOVERNANCE**

**Director Independence**

Under rules adopted by the New York Stock Exchange, or NYSE, no Board member qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with the Company. The Board considers all relevant facts and circumstances in making a determination of independence. In particular, when assessing the materiality of a director's relationship with the Company, the Board considers the issue not merely from the standpoint of the director, but also from the standpoint of persons or organizations with which the director has an affiliation. In its determination of independence, the Board of Directors reviews and considers all relationships and transactions between each director, his or her family members or any business, charity or other entity in which the director has an interest, on the one hand, and the Company, its affiliates or entities in which a member of the Company's senior management has an interest, on the other. The Board also considers ownership of the Company's stock. As a result of its independence reviews, the Board of Directors has affirmatively determined that Mr. Allan, Mr. Bates, Mrs. Edwards, Mr. Hickox and Mr. Knudson are independent from the Company and its management, both for purposes of Board service and service on each of the Board's committees. Mr. Clarke and Mr. McCarthy are executives of the Company, and, therefore, are not independent.

**Board and Committee Meetings; Annual Meeting Attendance**

The Board of Directors currently has three standing committees: the Audit Committee, the GNC Committee and the HSE Committee. During 2007, the full Board of Directors held six meetings (at which the non-management directors also held executive sessions), the Audit Committee held twelve meetings, the GNC Committee held seven meetings and the HSE Committee held two meetings. Each director, other than the retired director, attended at least 80% of the meetings of the Board and at least 80% of the meetings of the committees of the Board on which he or she served. While all directors are encouraged to attend the annual meeting of stockholders, the Board does not have a policy on Board member attendance at such meeting. All of our directors, other than the director retiring from service at that meeting, attended the 2007 annual meeting of stockholders.

**Audit Committee; Audit Committee Financial Expert**

The Audit Committee is a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The members of our Audit Committee are Mrs. Edwards (Chair), Mr. Allan and Mr. Hickox. All three members are independent and qualified to serve on the Audit Committee under the standards of the NYSE and applicable securities laws and regulations, including Rule 10A-3 under the Exchange Act. In addition, the Board of Directors has determined that Mrs. Edwards is an audit committee financial expert as defined in applicable federal securities laws and regulations. The charter of the Audit Committee, which was revised and adopted by the Board in February 2005, contains a detailed description of the Audit Committee's duties and responsibilities. Under the charter, the Audit Committee has been appointed by the Board to assist in overseeing (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the independent registered public accounting firm's independence, qualifications and performance and (4) the performance of the Company's internal audit function. The Audit Committee also has direct responsibility for the appointment, compensation and retention of the Company's independent registered public accounting firm. A copy of the charter may be obtained as described under Obtaining Copies of Committee Charters, Our Business Ethics Policies or Other Governance Documents.

**Governance, Nominating & Compensation Committee**

The GNC Committee serves as the Company's standing nominating and compensation committee. Its members are Mr. Knudson (Chair), Mr. Bates and Mrs. Edwards, who joined the committee in May 2007, following the retirement of Mr. Winokur. Each of Mr. Knudson, Mr. Bates, Mrs. Edwards and, prior to his

## **Table of Contents**

retirement, Mr. Winokur have been determined by the Board to be independent and qualified to serve on the GNC Committee under NYSE standards and applicable securities laws and regulations, including Rule 16b-3 under the Exchange Act and Section 162(m) under the Internal Revenue Code. Each person who served on the committee in 2007 was a non-management director. The GNC Committee adopted a revised charter that was approved by the Board in February 2007. A copy of the charter may be obtained as described under Obtaining Copies of Committee Charters, Our Business Ethics Policies or Other Governance Documents.

The GNC Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to governance, nomination of directors and executive compensation. In fulfilling its governance and nominating role, the committee assists the Board in identifying individuals qualified to become Board members, in determining the composition of the Board of Directors and its committees, in monitoring a process to assess Board effectiveness and in developing and implementing the Company's corporate governance guidelines. In fulfilling its compensation role, the committee assists the Board in assuring that the senior executives of the Company and its subsidiaries are compensated effectively, in a manner consistent with the stated compensation strategy of the Company, internal equity considerations, competitive practice and the requirements of applicable law, regulations and rules of applicable regulatory bodies.

### **Health, Safety & Environment Committee**

The HSE Committee was formed in May 2005 to assist the Board of Directors in fulfilling its responsibilities to provide global oversight and support of the Company's health, safety and environmental policies, programs and initiatives. Its three members are Mr. Allan (Chair), Mr. Bates and Mr. Knudson. Members of the HSE Committee are not required to be independent directors.

The HSE Committee functions under a revised charter adopted by the Board of Directors in February 2007. A copy of the charter may be obtained as described under Obtaining Copies of Committee Charters, Our Business Ethics Policies or Other Governance Documents. Under the charter, the responsibilities and common recurring activities of the committee in carrying out its purpose include: reviewing the status of the Company's health, safety and environmental policies, including processes to ensure compliance with applicable laws and regulations; reviewing the Company's health, safety and environmental performance to determine consistency with policies and goals; reviewing and providing input to the Company on the management of current and emerging health, safety and environmental issues; and reporting periodically to the Board of Directors on health, safety and environmental matters affecting the Company.

### **Compensation Committee Interlocks and Insider Participation**

During 2007, the GNC Committee consisted of three members. Mr. Knudson (Chair) and Mr. Bates served for the full year. Mr. Winokur served from January 2007 to his retirement in May, when he was replaced on the committee by Mrs. Edwards, who served the remainder of the year. Each person who served on the GNC Committee during 2007 was an independent, non-management director. There were no GNC Committee interlock relationships or insider participation in compensation arrangements during the year ended December 31, 2007.

### **Selection of Nominees for the Board of Directors**

The GNC Committee assists the Board in identifying individuals qualified to become Board members and selecting, or recommending that the Board select, such individuals as the director nominees for election at the annual meetings of stockholders or for appointments to fill vacancies. In evaluating the suitability of potential directors, the GNC Committee takes into account many factors, including the candidate's general understanding of marketing, finance or other elements relevant to the success of a publicly traded company in today's business environment, understanding of the Company's business on an operational level, education and professional background and availability and willingness to devote time to Board duties. The GNC Committee also evaluates each individual in the context of the Board as a whole, with the objective of having a Board that can best

## Table of Contents

perpetuate the success of the business and represent stockholder interests through the exercise of sound business judgment using its diversity of experience in these various areas.

In the event that the GNC Committee or the Board identifies the need to fill a vacancy or to add a new member to fill a newly created position on the Board, the GNC Committee will initiate a search process and keep the Board apprised of progress. Alternatively, if a potential Board member meeting the requirements of the Board is identified by a member of the Board or management, the GNC Committee will consider such proposed candidate and will evaluate the qualifications and independence of such candidate, and the needs of the Board. The GNC Committee may seek input from members of the Board, the Chief Executive Officer and other members of management and, if deemed necessary or desirable, retain a search firm. In addition, as a matter of policy, the GNC Committee will consider candidates for Board membership properly recommended by stockholders. The initial candidate or candidates, including anyone recommended by a stockholder, who satisfy the specific criteria for Board membership and otherwise qualify for membership on the Board will then be reviewed and evaluated by the GNC Committee. The evaluation process for candidates recommended by stockholders is not different from that for candidates recommended by any other source.

To be considered by the GNC Committee, a stockholder recommendation for a nominee must be made by written notice to the Chair of the Committee and the Corporate Secretary of the Company, containing, at a minimum, the name, appropriate biographical information and qualifications of the nominee. In considering stockholder recommendations for nominees, the GNC Committee may request additional information concerning the nominee or the applicable stockholder or stockholders. The bylaws of the Company permit stockholders to nominate directors for election at an annual stockholders meeting whether or not such nominee is submitted to and evaluated by the Board. To nominate a director using this process, the stockholder must follow certain procedures required by the bylaws that are described under Miscellaneous Stockholder Proposals for the 2009 Annual Meeting below.

Candidates nominated for election or re-election to the Board of Directors should possess the following qualifications:

personal characteristics:

high personal and professional ethics, integrity and values;

an inquiring and independent mind; and

practical wisdom and mature judgment;

broad training and experience at the management or policy-making level in business, government, education or technology that has provided the candidate with an appreciation of major issues relevant to the Company;

expertise that is useful to the Company and complementary to the background and experience of other Board members, so that an optimum balance of members on the Board can be achieved and maintained;

willingness to devote the required amount of time to carrying out the duties and responsibilities of Board membership;

commitment to serve on the Board over a period of several years to develop knowledge about the Company's principal operations;

willingness to represent the best interests of all stockholders and objectively appraise management performance; and

## Edgar Filing: NATCO GROUP INC - Form DEF 14A

involvement only in activities or interests that do not create a conflict with the director's responsibilities to the Company and its stockholders.

The GNC Committee is responsible for assessing the appropriate mix of skills and characteristics required of Board members in the context of the perceived needs of the Board at a given point in time and shall

## **Table of Contents**

periodically review and update the criteria as deemed necessary. Diversity in personal background for the Board as a whole may be taken into account in considering individual candidates.

During 2007, the Company did not name any new directors, nor did it pay any third party to identify or to assist in the evaluation of any candidate for election to the Board. The Company did not receive any stockholder recommendations or nominations for the Board for election at the 2008 annual meeting, except the nominations made by the Board that includes members who are stockholders. All of the nominees for election at the 2008 annual meeting are current members of the Board.

### **Code of Business Conduct and Ethics**

In January 2008, the Board of Directors adopted revised NATCO Group Inc. Business Ethics Policies, which meet the requirements of a code of ethics under applicable federal securities laws and regulations and NYSE listing standards. The revised policies simplified the wording of our prior policies, but did not substantially change the requirements applicable to our personnel. Our current and prior policies are posted on our website. They also may be obtained as discussed under [Obtaining Copies of Committee Charters, Our Business Ethics Policies or Other Governance Documents](#). Changes in and waivers to the Business Ethics Policies for the Company's directors, executive officers and certain senior financial officers will be posted promptly on the Company's website and maintained for at least twelve months.

### **Executive Sessions of the Board of Directors and the Presiding Director**

At each regularly scheduled Board meeting, the Company's non-management directors hold executive sessions at which the Company's management is not in attendance. The presiding director at these sessions is the Chair of the GNC Committee, currently Mr. Knudson.

### **Stockholder Communications; Reporting Concerns Regarding Accounting Matters**

Stockholders and other interested parties may communicate directly with the Company's Board, non-management directors or presiding director by sending a written communication appropriately addressed in care of the Company's Corporate Secretary at the address indicated on the first page of this proxy statement.

Anyone who has a concern about the Company's conduct, accounting, internal accounting controls or auditing matters, may communicate that concern directly to the Company's management, Board of Directors, independent directors or Audit Committee. Such communications may be confidential or anonymous, and may be e-mailed, submitted in writing or reported by phone to special addresses or any of the toll-free phone numbers published on NATCO's website, [www.natcogroup.com](http://www.natcogroup.com), under the Investor Relations/Corporate Governance section.

All such concerns will be forwarded to the appropriate directors for their review, and all concerns related to audit or accounting matters will be forwarded to the Audit Committee. All reported concerns will be simultaneously reviewed and addressed by the Company's General Counsel, or a designee. The status of all outstanding concerns addressed to the Company's management, Board, independent directors or Audit Committee will be reported to the Board on a quarterly basis. The Board may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed to them. The Company's Business Ethics Policies prohibit any retaliatory action against any employee for raising legitimate concerns or questions regarding these matters, or any suspected violation of law, regulations or the Business Ethics Policies.

### **Obtaining Copies of Committee Charters, Our Business Ethics Policies or Other Governance Documents**

The charters of the Audit, GNC and HSE Committees, and the Company's Corporate Governance Guidelines, Business Ethics Policies and other governance materials are available on the Investor Relations/Corporate Governance section of the Company's website at [www.natcogroup.com](http://www.natcogroup.com). Additionally, any stockholder who so requests may obtain printed copies of such documents from the Company's Corporate Secretary, using the address indicated on the first page of this proxy statement.



**Table of Contents****DIRECTORS AND EXECUTIVE OFFICERS**

The following table identifies our directors and executive officers as of March 11, 2008.

<b>Name</b>	<b>Age as of 3/11/08</b>	<b>Position(s)</b>	<b>Board Committee(s)</b>
John U. Clarke	55	Chairman of the Board and Chief Executive Officer (Class I term expiring in 2008)	
Patrick M. McCarthy	62	Director, President and Chief Operating Officer (Class I term expiring in 2008)	
Keith K. Allan	67	Director (Class II term expiring in 2009)	Audit; HSE (Chair)
Thomas R. Bates, Jr.	58	Director (Class III term expiring in 2010)	GNC; HSE
Julie H. Edwards	49	Director (Class III term expiring in 2010)	Audit (Chair); GNC
George K. Hickox, Jr.	49	Director (Class II term expiring in 2009)	Audit
Thomas C. Knudson	61	Director (Class I term expiring in 2008)	GNC (Chair); HSE
Robert A. Curcio	50	Executive Vice President Integrated Engineered Solutions	NA
Katherine P. Ellis	47	Senior Vice President, Secretary and General Counsel	NA
Knut Eriksen	57	Senior Vice President Global Execution	NA
Bradley P. Farnsworth	54	Senior Vice President & Chief Financial Officer	NA
James D. Graves	50	Vice President & Controller	NA
C. Frank Smith	56	Executive Vice President Standard & Traditional	NA
J. Scott Thompson	53	Senior Vice President Human Resources & Administration	
David R. Volz, Jr.	54	Executive Vice President Automation & Controls	NA
Joseph H. Wilson	55	Senior Vice President Global Ventures	NA

Biographies for our directors, including Mr. Clarke and Mr. McCarthy, who also are executive officers of the Company, are set forth above under the captions Board of Directors Continuing Directors. Biographies of our other executive officers follow.

*Robert A. Curcio.* Officer of the Company since May 1998, most recently serving as Executive Vice President Integrated Engineered Solutions since January 2008. Prior to joining NATCO, Mr. Curcio spent 20 years at Exxon Corporation and its affiliates, holding various positions in marketing, engineering and manufacturing management. Mr. Curcio was Global Markets Director Heavy Duty Diesel Additives of Exxon Chemical's PARAMINS division from February 1996 to May 1998, Global Markets Manager Specialty and Niche Additives of PARAMINS from January 1995 to February 1996, and PARAMINS Product Manager Large Engine Additives from July 1992 to January 1995.

*Katherine P. Ellis.* Senior Vice President, Corporate Secretary and General Counsel of the Company since March 2003. Ms. Ellis held various counsel positions at Nabors Industries from December 1996 to December 2002, serving most recently as General Counsel. From 1987 to 1996 she was associated with the law firm of Baker & Botts, LLP in Houston, Texas.

**Table of Contents**

*Knut Eriksen.* Executive officer of the Company since January 2006, most recently serving as Senior Vice President Global Execution since January 2008. Mr. Eriksen was a Senior Vice President of Aker Kvaerner, Inc. and its predecessor, Aker Maritime Inc., from 2001 to January 2006, most recently heading operations and business development for its deepwater business unit in Houston. Prior to rejoining Aker Maritime in 2001, Mr. Eriksen was President of Knut Eriksen Enterprises, a consultant to the deepwater market segment. He was a Vice President of Unocal Corporation from 1998 to 1999, responsible for worldwide deepwater development, and served in various positions with Aker Maritime, ASA from 1987 to 1998, most recently as President of Aker Engineering, Inc. in Houston.

*Bradley P. Farnsworth.* Senior Vice President and Chief Financial Officer since October 2006. From 2002 to October 2006, Mr. Farnsworth, a certified public accountant, served as an independent consultant on accounting and finance projects for a variety of public and private entities, including an 18-month assignment with the Company covering areas such as interim controller, working capital and treasury improvement, and SEC reporting and compliance. From September 1997 to October 2001, he was employed by Dynegy Inc., serving most recently as Senior Vice President, Financial Processes and Systems.

*James D. Graves.* Vice President and Corporate Controller since October 2005 and principal accounting officer since November 2005. Mr. Graves, a certified public accountant, served as Vice President and Controller of Philip Services, Corp. from January 2005 to October 2005. He was Vice President and Chief Financial Officer of BSI Inspectorate America, Inc., from August 2003 to November 2004 and Corporate Controller of Core Laboratories, NV from January 2000 to August 2003. Prior to joining Core Laboratories, he served in various accounting capacities at public and private corporations, including oilfield services companies ABB Vetco Gray, Veritas DGC and Cooper Cameron Corporation, Cameron Division.

*C. Frank Smith.* Executive officer of NATCO Group Inc. since 2002, most recently serving as Executive Vice President Standard & Traditional. Mr. Smith was President of NATCO's US operations from January 1998 until January 2002, and served as Senior Vice President Sales and Service from September 1993 to December 1997 and as the Northern Region Director of Sales and Service Centers from April 1992 to September 1993.

*J. Scott Thompson.* Officer of the Company since April 2006, most recently serving as Senior Vice President Human Resources & Administration since January 2008. Mr. Thompson served as Director, International HR, for Hanover Compressor from March 2005 to April 2006, and held several positions of increasing responsibility at Schlumberger Limited between February 1999 and March 2005, last serving as Human Resources Practice Manager, North and South America.

*David R. Volz, Jr.* Executive officer of the Company since 1997, most recently serving as Executive Vice President Automation & Controls since January 2008. Mr. Volz has served as President of the Company's TEST Automation & Controls subsidiary since its acquisition by NATCO in June 1997. He joined TEST in 1976 as a Technical Specialist and held a number of positions of increasing responsibility prior to serving as its President.

*Joseph H. Wilson.* Executive officer of the Company since 1999, most recently serving as Senior Vice President Global Ventures since January 2008. Prior to joining NATCO, Mr. Wilson served as Strategic Accounts Manager of Baker Hughes Inc., with responsibilities for strategic business development, from January 1999 to April 1999. From January 1997 to January 1999, Mr. Wilson served as Gulf Coast Region Manager of Baker Hughes INTEQ's fluids, directional drilling and MWD (measurement while drilling) business. From January 1994 to January 1997, Mr. Wilson was Director of Sales and Systems Marketing for INTEQ. Prior to January 1994, Mr. Wilson held a number of positions in sales, operations and marketing with Baker Hughes INTEQ, Baker Sand Control and BJ Services, each an oilfield service company.

**Table of Contents****SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS**

The following table sets forth certain information regarding the beneficial ownership of our common stock by (1) each person known by us to be the beneficial owner of more than 5% of our common stock, (2) each director, (3) each of the named executive officers (as defined in Executive Compensation Summary Compensation Table below) and (4) all directors and executive officers as a group. Unless otherwise indicated, each person has sole voting and dispositive power over the shares indicated as owned by such person. The information is as of March 11, 2008 with respect to directors and officers, and as of the date of the most recent SEC filing of the applicable person made prior to March 11, 2008, with respect to other persons named.

<b>Beneficial Owner (1)</b>	<b>Address</b>	<b>Number of Shares of Common Stock Beneficially Owned</b>	<b>Percentage of Common Stock Beneficially Owned</b>
Neuberger Berman Inc., et al. (2)(3)	605 Third Avenue New York, New York 10158	2,439,484	13.0%
FMR Corp. and Edward C. Johnson (2)(4)	82 Devonshire Street Boston, Massachusetts 02109	1,913,640	10.2%
David Nierenberg and The D3 Family Funds (2)(5)	19605 NE 8 <sup>th</sup> Street Camas, Washington 98607	1,270,338	6.4%
Barclays Global Investors, NA, et al. (2)(6)	45 Fremont Street, 17 <sup>th</sup> Floor San Francisco, CA 94105	1,000,678	5.3%
John U. Clarke (7)	11210 Equity Drive Houston, Texas 77041	259,504	1.4%
Patrick M. McCarthy (7)	11210 Equity Drive Houston, Texas 77041	145,221	*
Robert A. Curcio (7)	11210 Equity Drive Houston, Texas 77041	22,102	*
Bradley P. Farnsworth (7)	11210 Equity Drive Houston, Texas 77041	16,426	*
C. Frank Smith (7)	11210 Equity Drive Houston, Texas 77041	28,930	*
Keith K. Allan (8)	11210 Equity Drive Houston, Texas 77041	14,250	*
Thomas R. Bates, Jr. (8)	11210 Equity Drive Houston, Texas 77041	15,000	*
Julie H. Edwards (8)	11210 Equity Drive Houston, Texas 77041	22,600	*
George K. Hickox, Jr. (8)	11210 Equity Drive Houston, Texas 77041	236,352	1.3%

Edgar Filing: NATCO GROUP INC - Form DEF 14A

Thomas C. Knudson (8)	Houston, Texas 77041 11210 Equity Drive		
All Directors and Executive Officers as a Group (16 persons) (7)	Houston, Texas 77041	20,000	*
		899,362	4.8%

- \* Indicates beneficial ownership of less than one percent of outstanding common stock.
- (1) Shares are considered beneficially owned, for purposes of this table, if the person directly or indirectly has sole or shared voting and/or investment power with respect to such shares, and/or if a person has the right to acquire shares within 60 days of March 11, 2008. Shares that are indicated as beneficially owned in the table

**Table of Contents**

- above that meet this 60-day criteria include: (1) Mr. Clarke (45,843); (2) Mr. Curcio (7,468); (3) Mrs. Edwards (2,500); (4) Mr. Hickox (11,167); (5) Mr. McCarthy (84,588); (6) Mr. Smith (5,261); (7) Mr. Farnsworth (5,000); and (8) all directors and executive officers as a group (219,982).
- (2) As reported in the most recent Schedule 13D, Schedule 13F, Schedule 13G or Section 16 filing of such person filed with the Securities and Exchange Commission on or before March 11, 2008.
  - (3) As reported in a Schedule 13G, as amended, filed by Neuberger Berman, Inc., Neuberger Berman LLC, Neuberger Berman Management, Inc. and Neuberger Berman Equity Funds (collectively, Neuberger Berman ). Neuberger Berman reports having sole power to direct the vote with respect to 1,600 shares, shared power to direct the vote with respect to 2,086,628 shares of NATCO common stock and shared power to dispose or direct the disposition of 2,439,484 shares of NATCO common stock.
  - (4) As reported in a Schedule 13G, as amended, filed by Edward C. Johnson 3d and FMR Corp. The shares are owned by two subsidiaries of FMR Corp., Fidelity Management & Research Company, a registered investment adviser, and Fidelity Management Trust Company, a bank as defined in Section 3(a)(6) of the Securities Exchange Act (collectively, Fidelity ). Mr. Johnson is the Chairman of FMR Corp., and with FMR Corp. has sole dispositive power to dispose of the shares owned by Fidelity Management & Research Company and Fidelity Management Trust Company. Mr. Johnson and FMR Corp. have sole power to vote or direct the voting of the shares held by Fidelity Management Trust Company. Neither Mr. Johnson nor FMR Corp. has the sole power to vote or direct the voting of the shares owned by Fidelity Management & Research Company. Members of Mr. Johnson s family may be deemed to form a controlling group with respect to FMR Corp. Fidelity reports having sole power to vote or direct the vote with respect to 514,980 shares and sole power to dispose or to direct the disposition of 1,913,640 shares.
  - (5) As reported in a Schedule 13D, as amended, filed by David Nierenberg, The D3 Family Funds (The D3 Family Fund, L.P., The DIII Offshore Fund, L.P. and The D3 Family Bulldog Fund, L.P.), Nierenberg Investment Management Company, Inc. (the general partner of The D3 Family Fund and The D3 Family Bulldog Fund) and Nierenberg Investment Management Offshore, Inc. (the general partner of the DIII Offshore Fund). Mr. Nierenberg is president of each general partner of The D3 Family Funds.
  - (6) As reported in a Schedule 13G filed by Barclays Global Investors NA, a bank, Barclays Global Fund Advisors, an investment advisor, Barclays Global Investors, Ltd., a bank, Barclays Global Investors Japan Trust and Banking Company Limited, a bank, Barclays Global Investors Japan Limited, an investment advisor, Barclays Global Investors Canada Limited, an investment advisor, Barclays Global Investors Australia Limited, an investment advisor, and Barclays Global Investors (Deutschland) AG, an investment advisor (collectively, Barclays ). Barclays reports having sole power to vote or direct the vote with respect to 762,124 shares of NATCO common stock, and sole power to dispose or to direct the disposition of 1,000,678 shares of NATCO common stock.
  - (7) Included in the number of shares beneficially owned are restricted shares for which restrictions have not lapsed and which may be subject to forfeiture if the requirements are not met in the future, as follows: Mr. Clarke (63,080), Mr. McCarthy (43,733), Mr. Curcio (11,390), Mr. Farnsworth (8,493), Mr. Smith (5,405) and all directors and executive officers as a group (201,013) (including restricted stock referenced in note (7)).
  - (8) Includes 2,500 unvested, restricted shares granted to the named independent director over which such director has the right to exercise voting power.

**Table of Contents**

**COMPENSATION DISCUSSION & ANALYSIS**

The following is a summary of the material elements of the Company's compensation program for its named executive officers and other members of senior management. Specific amounts awarded to, earned by or paid to the named executive officers in 2007 are discussed under Executive Compensation.

In accordance with its charter, the GNC Committee of the Board of Directors is responsible for overseeing development of executive compensation policies that support the Company's strategic business objectives and values. The GNC Committee, entirely composed of independent directors, has oversight responsibility related to compensation levels established for executive officers, guidelines for company-wide compensation policies and our annual cash compensation and long-term incentive compensation plans.

**Objectives of the Company's Compensation Programs**

The Company's overall objectives in setting compensation for executive officers and key employees are:

to attract and retain talented and experienced people; and

to motivate executive officers to work as a team in pursuit of stated goals, aligned with the interests of the Company and its stockholders.

The Company attempts to satisfy these objectives by providing competitive compensation to its executive officers and key employees based upon general market data, establishing well-defined near- and long-term goals and objectives, achieving an appropriate mix of cash and equity components of total compensation and focusing on pay for performance and retention. The GNC Committee monitors general market conditions, changes in legal, accounting and tax regulations and other developments that may, from time to time, require modification of the executive compensation program to ensure the program is properly structured to achieve its objectives.

**Compensation Philosophy**

The Company's ability to implement successfully its strategy for growth is highly dependent upon its attracting, retaining and developing employees with the needed experience, skill sets and motivation to build a global oil service company whose success is based on its technology leadership and offerings of high-quality equipment and services. The Company believes that setting appropriate compensation levels consistent with its objectives often involves balancing competing needs and desires of various constituencies, including:

the Company's desire to attract and retain personnel with the skills, educational qualifications and experience to enable the Company to grow and achieve its business goals;

the Company's rate of growth;

the employee's desire to be adequately compensated for his or her services, consistent with comparable positions in the market;

the employee's desire for career advancement;

competitors' demands for services of the Company's employees, which apply upward pressure on compensation; and

stockholders' desire for increased returns.  
Further, the Company believes that:

compensation practices, particularly regarding incentive compensation, should be designed to drive desired behaviors consistent with the Company's values and to achieve stated goals;

different types of compensation are appropriate for different levels of employees; more senior executives should have more of their incentive compensation at risk for, and tied to, Company and individual performance;

**Table of Contents**

it is in a cyclical business which requires a flexible compensation program that is responsive to different requirements at various points in the cycle;

in approving compensation, recent compensation history of an executive officer, including special or unusual compensation payments, should be taken into consideration;

incentive compensation for executive officers should link pay to achievement of stated financial and other strategic goals;

senior management ownership of Company stock should be strongly encouraged;

the total compensation program should be competitive with the types of companies with which NATCO competes for top management talent;

employment agreements setting out the rights and obligations of a senior executive and the Company may be required for certain positions or under certain circumstances to enable the Company to secure and retain top level management; and

fair protection of senior management and key employees should be provided in the event of termination associated with a change in control.

Typically, the GNC Committee reviews and approves annual goals and objectives to be used as performance measures in various elements of the Company's compensation program. The GNC Committee reviews senior management performance against those goals on a regular basis. The Chief Executive Officer and Senior Vice President Human Resources & Administration also play important roles in the compensation process, in identifying key employees, monitoring their performance, establishing financial and performance goals for consideration by the Board and its committees, and making recommendations to the GNC Committee regarding salaries, cash bonuses and long-term incentive awards for senior executives and other key employees. However, neither officer participates in the process of setting his own compensation nor evaluating his own performance. That responsibility lies with the GNC Committee and ultimately, in the case of the Chief Executive Officer, with the Board of Directors.

The GNC Committee also utilizes outside advisors to assist in reviewing compensation matters, including market rates, appropriate compensation mix and other issues related to compensation. The GNC Committee has engaged Stone Partners, a human resource and compensation consulting firm, to review from time to time various aspects of the Company's compensation programs, including director compensation. During 2007, this consultant conducted several assignments at the direction of the GNC Committee, including reviews of: (1) long-term incentive compensation for senior management, (2) the cash component of senior management compensation, (3) director compensation, (4) compensation disclosures and (5) senior management employment agreements and terms.

The GNC Committee may delegate its authority with respect to issuance of options, stock and other share-based compensation in accordance with the requirements of Delaware law and consistent with its charter obligations. In 2007, the GNC Committee authorized the issuance of up to 100,000 options to acquire shares of common stock and up to 15,000 shares of restricted stock under the 2004 Stock Incentive Plan and delegated to the Chief Executive Officer the authority to make grants to: (1) newly hired employees who are not subject to the reporting requirements of Section 16 under the Exchange Act or (2) existing non-Section 16 reporting employees as may be designated by the Chief Executive Officer of the Company. The GNC Committee extended this authorization in February 2008, and authorized the issuance of up to an additional 75,000 in options and 25,000 shares of restricted stock. The authorization expires December 31, 2009 and is subject to certain limitations regarding: (1) the size of the awards to any single individual; (2) term, vesting and exercise price of option awards; (3) length of service required for restricted stock awards; and (4) persons to whom awards can be made (that is, awards cannot be made to any senior executive officer). The Chief Executive Officer also is required to notify the GNC Committee of any grants at the next regular meeting of that committee following the date of the grant.



---

## **Table of Contents**

### **Elements of Compensation**

The Company's executive compensation program:

includes three primary components: (1) base salary; (2) annual cash incentive bonus; and (3) long-term incentives consisting of stock options, restricted shares and/or performance units;

is performance-oriented, with a significant portion of executive compensation being at risk;

provides total compensation opportunities that are comparable to the opportunities provided at similarly-situated companies generally and to defined peer group companies, as determined from time to time;

affords competitive benefit packages with limited perquisites;

provides for continuation of certain benefits in the event of termination as a result of or change in control of the Company.

The GNC Committee considers each element of executive compensation at separate times of year, and also considers overall compensation at least once annually. Typically, bonuses are reviewed in the first quarter, long-term compensation and the overall compensation package are considered in the second quarter and base salaries are reviewed early in the fourth quarter. In 2007, the Committee examined base salaries for senior executives other than the Chief Executive Officer and President and Chief Operating Officer in October. They reviewed base salaries for the Chairman and Chief Executive Officer and President and Chief Operating Officer in December in conjunction with the negotiation of new employment agreements. If circumstances warrant, the GNC Committee may review executive compensation for hiring or retention purposes outside of this general schedule.

*Base Salary.* Executive officer salaries are based on an evaluation considering selected energy and general industry company data, the executive's responsibilities, complexity of duties, performance and length of time in the position, internal equities among positions and general economic conditions. Overall base salaries are derived by reviewing, among other things, the median level of compensation for selected peer companies and other, often larger, companies with which we compete for employees. For 2007, our peer group of similarly sized companies in similar businesses included Gulf Island Fabrication Inc, Dril-Quip, Inc., RPC, Inc., Newpark Resources, Inc., Basic Energy Services, Inc., TETRA Technologies, Inc., W-H Energy Services, Inc., Superior Energy Services, Inc., Complete Production Services, Inc., Global Industries, Ltd., Helix Energy Solutions Group, Inc., Grant Prideco, Inc., Oil States International, Inc., Hanover Compressor Company, Cameron International Corporation, FMC Technologies, Inc. and McDermott International, Inc. To determine salary levels paid within the market, the GNC Committee reviews various compensation surveys and proxy information of our competitors and consults with independent compensation consulting firms from time to time. The GNC Committee reviews executive salaries at least annually, usually in October, and makes adjustments, if appropriate.

*Annual Cash Incentive Bonus.* Annual cash incentive bonus awards are linked to the achievement of corporate and individual financial, performance and safety goals and are designed to put a meaningful portion of total compensation at risk. Under the 2007 bonus plan, a bonus target was established for each plan participant, based on a subjective evaluation considering peer company data and the participant's level of responsibility and ability to impact our results. In 2007, the individual bonus targets for the named executive officers ranged from 50% to 75% of base salary, and represented the at risk portion of annual cash compensation. Objectives under the 2007 bonus plan, which were set in advance with the approval of the GNC Committee, included: (1) corporate performance measures which represented consolidated earnings before interest, income tax, foreign

**Table of Contents**

exchange, depreciation and amortization, or EBITDA<sup>1</sup> (to drive value creation); and return on assets<sup>2</sup> (to earn competitive rates of return) and (2) business unit performance goals (to drive behaviors), adjusted in each case by application of an individual contribution factor (which may range from a discount to target for lesser performance to 150% of the target award for superior performance), based on the achievement of individual goals. The GNC Committee reviews overall progress against financial goals at least quarterly, and monitors executive officer progress against individual goals semi-annually. After a year-end review, the GNC Committee, in its sole discretion, approves funding of the bonus pool on a corporate and business unit basis. The GNC Committee separately approves the amount of the annual incentive payment, if any, that will be awarded to each executive officer (including the CEO and other named executive officers) based on the GNC Committee's qualitative and quantitative evaluation of the extent to which company-wide, business unit and individual performance goals are achieved and general economic and industry conditions. Bonus awards related to a fiscal year typically are paid by March 15 of the following fiscal year.

Each financial metric within the 2007 bonus plan has a minimum threshold level which must first be satisfied before any related award amount is released to the bonus pool. Further, the total bonus pool will only fund if the corporate EBITDA threshold amount, measured after taking into account the bonus accrual, is satisfied. Typically, the various threshold levels have represented 75% of the targeted amount. Target corporate performance (at 100% payout) is tied generally to the achievement of annual business plan results and stated objectives. For 2007, the corporate performance measures accounted for 70% of the total pool (with 50% of the total tied to achievement of the 2007 business plan EBITDA target and 20% tied to the return on assets measure) while business unit goals accounted for the remaining 30%. Individual bonuses are capped at 2.0 times base salary and the total pool amount for 2007 cannot exceed the greater of: 12% of consolidated EBITDA or 2.0 times the target pool or a lesser amount the Board may otherwise set in its discretion. Further, the total bonus pool amount, after final individual participant allocations (based on the individual's performance factor), cannot exceed 110% of target amount without prior approval of the GNC Committee.

The GNC Committee, in its discretion, may revise performance objectives and the amount to be paid out upon the attainment of such objectives. The performance objectives were not modified for 2007, but the

<sup>1</sup> EBITDA can be reconciled to the Company's consolidated income statement as shown below.

	<b>Twelve Months Ended December 31,</b>	
	<b>2007</b>	<b>2006 (*)</b>
	<b>(in thousands)</b>	
Net income available to common stockholders	\$ 45,058	\$ 36,212
Preferred stock dividends	1,267	1,500
Net income	\$ 46,325	\$ 37,712
Income tax provision	25,219	19,361
Income before income taxes	\$ 71,544	\$ 57,073
Other, net	2,181	(1,534)
Closure, severance and other	(227)	2,511
Interest income	(2,219)	(532)
Interest expense	355	2,135
Depreciation and amortization	6,140	5,494
<b>Total EBITDA</b>	<b>\$ 77,774</b>	<b>\$ 65,147</b>

(\*) Results for 2006 have been adjusted to reflect the adoption of the Financial Accounting Standard Board's Staff Position No. AUG AIR-1, Accounting for Planned Major Maintenance Activity.

<sup>2</sup> Return on assets is defined in the bonus plan as the EBITDA for the year divided by the average of total consolidated assets plus outstanding letters of credit, less advance payments for the year.



**Table of Contents**

Committee eliminated certain one-time gains and losses in its determination of corporate and business unit financial performance, consistent with established practice.

The corporate performance objectives attributable to senior executives under the 2007 bonus plan are:

	<b>Threshold (75%)</b>	<b>Target (100%)</b>	<b>Maximum (125%)</b>
EBITDA	\$ 65.8 million	\$ 87.7 million	\$ 109.6 million
ROA	17.3%	19.1%	28.8%

Bonus amounts accrued were calculated for executives based on a 93% rate for achievement of these corporate performance measures (50% for EBITDA and 20% for return on assets), which accounted for 70% of an individual's bonus opportunity. The remaining 30% of the bonus is tied to business unit and individual goals. Both components are subject to adjustment by the GNC Committee based on individual performance.

In February 2008, the Audit Committee of the Board of Directors of the Company, with the assistance of outside counsel, initiated a review of certain payments made in a foreign jurisdiction in which the Company operates, which may present issues under the Foreign Corrupt Practices Act.

The GNC Committee has deferred any determination of bonus awards to the senior executives and certain other participants in the 2007 bonus plan pending sufficient progress in the internal review such that, in the judgment of the GNC Committee, decisions with respect to such bonuses could be reasonably and appropriately made.

*Long-Term Incentive Compensation.* We make long-term incentive compensation awards under stockholder-approved plans to align the interests of executive officers and key employees with those of stockholders, and to provide certain retention incentives to create long-term employee relationships. The objective of the Company's long-term incentive program is to provide competitive non-cash compensation, utilizing stock options, restricted stock and/or performance units within plan limits, while closely managing dilution and minimizing adverse accounting consequences.

The GNC Committee strives to limit the total number of options or restricted stock awarded to no more than a specified percentage of total shares outstanding. This ratio is often referred to as the burn rate. In addition, the GNC Committee strives to limit the total number of previously granted options and restricted stock awards and those available for future grant under stockholder-approved plans to less than a specified percentage of total shares outstanding plus shares available for grant. This ratio is often referred to as overhang. The GNC Committee bases awards on a subjective evaluation considering market data and the executive officer's or key employee's ability to impact our results. Consideration is also given to amounts, timing and vesting status (or, in the case of restricted stock, whether the restrictions have lapsed) of previous awards to each executive officer or key employee, total options outstanding and available under the plan, the level and volatility of our share price and the amount of appreciation realized by the stockholders over comparable periods.

Options typically vest ratably in annual increments, usually over a minimum of three years, and have an exercise price at least equal to the fair market value of the common stock on the date of grant, defined under the Company's incentive plans to be the average of the high and low trading prices on that date. Therefore, options have no worth to the holder unless the holder becomes vested and the Company's stock price appreciates in value prior to expiration of the grant. Restricted stock awards contain various restrictions that may be performance-based, time of service-based or both. In 2007, we granted time-based restricted stock to senior management, certain other managers and new hires. If the employee does not remain employed by the Company for the time specified (typically, three years from the award date), the shares will be forfeited to the Company, except in the case of a change in control or as otherwise set forth in the applicable plan or award agreement. In June 2007, we awarded performance units that measure Company performance based on cumulative earnings per share over the three-year period ending December 31, 2010. The units will be settled in cash at a value to be determined at the end of the performance cycle, if the requisite thresholds are met.

**Table of Contents**

Guidelines in 2007 for long-term incentive awards under the Company's plans included (1) targeting long-term incentive compensation at the 50<sup>th</sup> percentile versus peer companies, (2) managing overhang within our 12.5% target range, (3) maintaining a burn rate of approximately 2%, and (4) limiting the value of any single grant to \$1 million for any individual. In 2007, targeted awards for senior executives, including the CEO and other named executive officers, were calculated generally by multiplying the base salary by a position grade factor of the executive, subject to adjustment at the discretion of the GNC Committee. Position grade factors for the named executive officers were 2.0 for the Chairman and Chief Executive Officer, 1.0 for the President and Chief Operating Officer, and 0.75 for Executive and Senior Vice Presidents who were employed at the time of the grants, with modified awards to recently hired executives who had received long-term incentive compensation in connection with their first day of employment.

In 2007, senior executive long-term compensation awards generally were allocated by value, one-third to option grants (based upon their approximate Black-Scholes valuation), one-third to time-based restricted stock awards (based upon a determination of fair market value with restrictions generally to lapse after three years of continuous service) and one-third to performance units (with a nominal value of \$1.00 per unit). The GNC Committee, with the advice of its outside compensation consultant, selected the different types and mix of long-term incentive compensation for senior executives to address various objectives. These included, first, driving improvement in corporate performance, thus increasing value for our stockholders; and, second, aligning the interest of management with the Company's strategic objectives by allowing key managers to earn a stake in the value created as a result of their efforts. The GNC Committee also considered the accounting treatment of each type of long-term incentive compensation (fixed, in the case of the options and restricted stock awarded, and variable, in the case of the performance units awarded) and limiting potential dilution to stockholders (with options and restricted stock being settled in stock and the performance units being settled in cash). In addition, the GNC Committee sought to promote alignment of executive officer interests with those of the Company's stockholders by promoting the opportunity for larger share ownership by executives. All three types of long-term incentive compensation also are intended to promote long-term retention of senior executives, with features including a three-year vesting schedule, in the case of options, a three-year service requirement, in the case of the restricted stock, and a requirement of achieving a three-year performance goal, in the case of the performance units.

Long-term incentive compensation awards made in 2007 to named executive officers are set forth below:

Named Executive Officer (1)	Number of Restricted Shares Granted	Number of Options Granted	Performance Units Awarded (2)
John U. Clarke (Principal Executive Officer)	9,280	18,900	371,250
Bradley P. Farnsworth (Principal Financial Officer)	3,160	6,430	126,230
Robert A. Curcio	8,690	6,680	131,180
Patrick M. McCarthy	7,900	11,760	231,000
C. Frank Smith	3,280	6,680	131,180

(1) Awards were made as part of the annual long-term incentive compensation assessment.

(2) Represents the number of units initially awarded. Each unit has a value of \$1.00. Such units will be adjusted at the end of the performance cycle as described above under Long-Term Incentive Compensation.

In January 2008, the GNC Committee authorized additional awards of restricted stock to the Chief Executive Officer and President and Chief Operating Officer in conjunction with their entry into new employment agreements with the Company. See Compensation Developments since Year-End.

*Stock Ownership Guidelines.* In June 2007, the Board of Directors adopted revised corporate governance guidelines that provide, among other things, for stock ownership targets to be met by non-employee directors and certain senior executives. Under the revised guidelines, non-employee directors are expected to own a number of

**Table of Contents**

shares of common stock having a value at least equal to two times the annual cash retainer for service as a director (without regard to any committee chair retainers). Each of the Chief Executive Officer, President and Chief Operating Officer and each Executive or Senior Vice President reporting to the Chief Executive Officer or President and Chief Operating Officer is expected to own a number of shares of common stock having a value at least equal to a specified multiple of such executive's base salary (5x in the case of the Chief Executive Officer, 3x in the case of the President and Chief Operating Officer and 2x in all other cases). The non-employee directors and executives have a transition period within which to comply, and the GNC Committee will review progress toward the targets on an annual basis. Executives over age 62 are exempt from the requirements to permit appropriate retirement planning. Mr. McCarthy is exempt from this requirement, but currently meets the ownership guideline applicable to his position. A copy of the revised corporate governance guidelines is posted on the Company's website, [www.natcogroup.com](http://www.natcogroup.com), under the caption "Investor Relations" in the Corporate Governance section. A copy of the guidelines will be provided to any stockholder upon request to the Company's Corporate Secretary, at the address listed on the cover to this report.

Effective upon adoption of the ownership guidelines, the GNC Committee waived stock retention requirements in previously granted option and restricted stock award agreements applicable to employees, as the guidelines supersede these requirements.

*Benefits and Other Items.* Our benefits packages are intended to be competitive with those of peer companies with which we compete for employees. Benefits offered include:

Medical/dental/vision coverage

Employee Assistance Program

Life insurance

401(k) match

Several of the Company's subsidiaries maintain a defined contribution savings plan (the NATCO 401(k) Plan) covering substantially all US non-union hourly and salaried employees who have completed three months of service. Employee contributions of up to 3% of each covered employee's compensation are matched 100% by the employing subsidiary with an additional 2% of covered employee's compensation matched at 50%. In addition, the employing subsidiary may make discretionary contributions from time to time to all eligible participants, as profit sharing contributions. The board of directors of each employing subsidiary reviews and approves all discretionary contributions. During 2007, the employing subsidiaries provided an additional match equal to 1% of each covered employee's compensation. Similar plans are maintained at our significant non-US subsidiaries.

Certain executive officers also receive perquisites from the Company, although these are generally limited. Such perquisites may include provision of company cars or car allowances, country or social club memberships in limited circumstances (for business-related entertainment), or other limited benefits. The Company eliminated future corporate cars or car allowances unrelated to a business need (for example, sales or service requirements comprising a substantial percentage of the employee's job) late in 2004, but grandfathered certain then existing car and car allowance benefits. All of the perquisites provided to the Chief Executive Officer and other named executive officers in 2007 are identified in the Summary Compensation Table included in this proxy statement under the caption "Executive Compensation." The Chief Executive Officer does not receive any perquisites related to automobiles or club memberships.

*Deductibility of Compensation.* Under Section 162(m) of the US Internal Revenue Code, the amount of compensation paid to or accrued for the named executive officers (other than the Chief Financial Officer) which may be deductible by the Company for federal income tax purposes is limited to \$1 million per person per year, except that compensation which is considered to be "performance-based" under the Code and the applicable regulations is excluded for purposes of calculating the amount of compensation.

---

**Table of Contents**

To the extent the Company's compensation policy can be implemented in a manner which maximizes the deductibility of compensation paid by the Company, the Board of Directors seeks to do so. Accordingly, the Company has designed its incentive compensation plans so that compensation in the form of awards or grants made under either plan will be performance-based under the applicable provisions of the Code. However, the Board reserves the right to award compensation that does not meet the requirements of Section 162(m) if it determines that such awards are necessary to provide a competitive compensation package.

*Compensation Developments since Year-End.* On December 31, 2007, the GNC Committee approved the payment of \$388,470 in deferred compensation payable to Mr. McCarthy under the terms of his then current employment agreement, which was paid on January 31, 2008.

On January 1, 2008, the Company entered into new employment agreements with Mr. Clarke and Mr. McCarthy. The material terms of these agreements are discussed below under Employment, Termination and Change of Control Arrangements. Effective January 2, 2008, the GNC Committee approved restricted stock awards to Mr. Clarke and Mr. McCarthy of 45,000 and 30,000 restricted shares, respectively, under the Company's 2006 Long-Term Incentive Compensation Plan. The restricted stock awards provide for restrictions to lapse on March 1, 2011, subject to (i) the Company achieving an earnings per share averaging at least \$1.50 per year for the three years ending December 31, 2008, 2009 and 2010, and (ii) the recipient's continuous employment with the Company or a subsidiary from the date of the grant to the date restrictions lapse. Restrictions may lapse earlier as provided in the 2006 plan or as a result of a change in control as described in the plan.

Effective January 1, 2008, the GNC Committee of the Board of Directors approved changes to certain employment agreements, severance pay policies and 2006 performance unit award agreements in order to comply with Section 409A of the Code. The Company intends to enter into amended and restated employment agreements with Mr. Farnsworth and Mr. Eriksen to address these Section 409A changes. The other terms and conditions of these amended and restated employment agreements will remain the same.

On January 2, 2008, the Board of Directors of the Company approved an increase in base salary for Robert A. Curcio, who was promoted to Executive Vice President Integrated Engineered Solutions, to \$315,000, such increase to be effective as of January 1, 2008.

**Employment, Termination and Change of Control Arrangements**

Since it is in the best interests of the Company to retain key employees during times of uncertainty, particularly with respect to a potential change in control, NATCO has employment or change in control agreements with certain executives as described under Executive Compensation Employment Arrangements for Certain Named Executive Officers. These agreements provide a reasonable degree of financial protection to key employees who might be at risk of losing their employment upon occurrence of a change in control which, in turn, will help assure their acting in the best interests of the Company and its stockholders without regard to personal outcome. The GNC Committee reviews and evaluates tally sheets that summarize NATCO's contractual payment obligations under various termination scenarios with respect to each such agreement at the time it is adopted. The tally sheets reviewed contain similar information to that contained in the table under Executive Compensation Potential Payments upon Termination or Change in Control. In reviewing this information the GNC Committee considered the overall payments under each scenario, comparability of payments among peers within the Company and comparability of payments with executives at other companies holding similar positions. The GNC Committee, with the assistance of its outside compensation consultant has concluded that the terms of these agreements were reasonable and in the best interests of our stockholders at the time of their adoption.

**Table of Contents****EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table presents information concerning compensation paid or payable to our Chief Executive Officer, Chief Financial Officer and three other most highly compensated executive officers with respect to the years ended December 31, 2007 and 2006 (the named executive officers):

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	Non-Equity Incentive Plan Compensation (\$)(2)	All Other Compensation (\$)	Total (\$)
John U. Clarke Chief Executive Officer	2007	\$ 450,000	\$	\$ 413,352	\$ 214,415	\$	\$ 18,714(3)	\$ 1,092,415
	2006	\$ 420,923	\$	\$ 388,699	\$ 106,246	\$ 500,000	\$ 24,889(4)	\$ 1,440,757
Bradley P. Farnsworth Chief Financial Officer (5)	2007	\$ 255,139	\$	\$ 103,609	\$ 131,819	\$	\$ 12,026(3)	\$ 502,593
	2006	\$ 46,154	\$	\$ 26,210	\$ 24,933	\$ 50,000	\$ 262,683(4)(6)	\$ 409,980
Robert A. Curcio Senior Vice President Gas Technologies and Technology & Product Development	2007	\$ 270,298	\$	\$ 106,099	\$ 73,877	\$	\$ 20,464(3)	\$ 470,277
	2006	\$ 249,321	\$	\$ 62,710	\$ 39,411	\$ 175,000	\$ 22,268(4)	\$ 548,710
Patrick M. McCarthy President & Chief Operating Officer	2007	\$ 350,000	\$	\$ 136,970	\$ 124,778	\$	\$ 421,950(3)(7)	\$ 1,033,698
	2006	\$ 332,627	\$	\$ 97,163	\$ 46,587	\$ 300,000	\$ 30,582(4)	\$ 806,959
C. Frank Smith Executive Vice President	2007	\$ 269,231	\$	\$ 53,309	\$ 74,942	\$	\$ 23,689(3)	\$ 420,268
	2006	\$ 257,116	\$	\$ 64,707	\$ 52,227	\$ 151,000	\$ 22,954(4)	\$ 548,004

- (1) Represents the amortization of grant or award date fair value computed in accordance with Statement of Financial Accounting Standards No. 123R. For a description of the assumptions used to calculate the fair value of option awards reported in this table, see note 16, Share-Based Compensation, of the notes to the consolidated financial statements of the Company for the period ended December 31, 2007, included in the Company's annual report on form 10-K for the year ended December 31, 2007.
- (2) Represents incentive bonuses awarded under the applicable bonus plan. Bonuses reported in a fiscal year relate to the executive's performance in that fiscal year, even though final determination of the bonus amount and payment may occur in the following year. Bonuses to executive officers for 2007 have not yet been awarded. See Compensation Discussion & Analysis Annual Cash Incentive Bonus for further information.
- (3) Represents (a) matching contributions made in 2007 under the NATCO 401(k) Plan to Mr. Clarke (\$11,050); Mr. McCarthy (\$9,531), Mr. Farnsworth (\$11,050), Mr. Smith (\$11,050) and Mr. Curcio (\$11,050); (b) life insurance premiums on behalf of Mr. Clarke (\$2,064); Mr. McCarthy (\$2,376), Mr. Farnsworth (\$4,524), Mr. Smith (\$1,109) and Mr. Curcio (\$593); (c) car allowances or provision of a company car to Mr. McCarthy (\$19,010), Mr. Smith (\$7,800) and Mr. Curcio (\$7,800); (d) spousal travel and entertainment expense for attendance at Board and Company functions at the Company's request to Mr. Clarke (\$4,900), Mr. Farnsworth (\$450), Mr. McCarthy (\$6,631), Mr. Smith (\$3,729), Mr. Curcio (\$1,021); and (e) an airline club membership to Mr. Clarke (\$700).
- (4) Represents (a) matching contributions made in 2006 under the NATCO 401(k) Plan to Mr. Clarke (\$17,052); Mr. McCarthy (\$11,604), Mr. Farnsworth (\$1,846), Mr. Smith (\$12,521) and Mr. Curcio (\$12,962); (b) life insurance premiums on behalf of Mr. Clarke (\$955); Mr. McCarthy (\$2,123), Mr. Farnsworth (\$1,187), Mr. Smith (\$566) and Mr. Curcio (\$351); (c) car allowances or provision of a company car to Mr. McCarthy (\$12,955), Mr. Smith (\$7,800) and Mr. Curcio (\$7,800); (d) spousal travel and entertainment expense for attendance at Board and Company functions at the Company's request to



**Table of Contents**

- Mr. Clarke (\$6,631), Mr. McCarthy (\$3,901), Mr. Smith (\$1,767) and Mr. Curcio (\$802); and (e) airline club memberships to Mr. Clarke (\$250), Mr. Smith (\$300) and Mr. Curcio (\$350).
- (5) Mr. Farnsworth was elected as Senior Vice President and Chief Financial Officer of the Company in October 2006. He served as a consultant to the Company from January 2005 to October 8, 2006, providing financial and accounting services.
- (6) Includes \$259,650 earned by Mr. Farnsworth while serving as a consultant to the Company during 2006, prior to his election as Chief Financial Officer.
- (7) Includes \$388,470 payable to Mr. McCarthy pursuant to the terms of his prior employment agreement. The payment, agreed to in December 2007, was made on January 31, 2008.

**Grants of Plan-Based Awards in 2007**

The following table presents information concerning the grant of plan-based awards during fiscal year 2007 to the named executive officers under our long-term incentive plans.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Options Awards: Number of Securities Underlying	Exercise or Base Price of Option Awards (\$/Sh)	Closing Market Price on Date of Grant	Grant Date Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	(#)	(1)		
John U. Clarke	6/6/07(2)	\$ 185,625	\$ 371,250	\$ 556,875					\$	\$	\$
	6/6/07(3)	\$	\$	\$		9,280			\$	\$ 44.34	\$ 414,616
	6/6/07(4)	\$	\$	\$				18,900	\$ 44.70	\$ 44.34	\$ 34,500
	12/31/07(5)	\$ 253,125	\$ 337,500	\$ 675,000						\$	\$
Bradley P. Farnsworth	6/6/07(2)	\$ 63,115	\$ 126,230	\$ 189,345					\$	\$	\$
	6/6/07(3)	\$	\$	\$		3,160			\$	\$ 44.34	\$ 141,252
	6/6/07(4)	\$	\$	\$				6,430	\$ 44.70	\$ 44.34	\$ 117,376
	12/31/07(5)	\$ 90,000	\$ 120,000	\$ 240,000					\$	\$	\$
Robert A. Curcio	6/6/07(2)	\$ 65,590	\$ 131,180	\$ 196,770					\$	\$	\$
	6/6/07(3)	\$	\$	\$		8,690			\$	\$ 44.34	\$ 388,433
	6/6/07(4)	\$	\$	\$				6,680	\$ 44.70	\$ 44.34	\$ 127,939
	12/31/07(5)	\$ 99,375	\$ 132,500	\$ 265,000						\$	\$
Patrick M. McCarthy	6/6/07(2)	\$ 115,500	\$ 231,000	\$ 346,500					\$	\$	\$
	6/6/07(3)	\$	\$	\$		7,900			\$	\$ 44.34	\$ 353,136
	6/6/07(4)	\$	\$	\$				11,760	\$ 44.70	\$ 44.34	\$ 214,672
	12/31/07(5)	\$ 157,500	\$ 210,000	\$ 420,000					\$	\$	\$
C. Frank Smith	6/6/07(2)	\$ 65,590	\$ 131,180	\$ 196,770					\$	\$	\$
	6/6/07(3)	\$	\$	\$		3,280			\$	\$ 44.34	\$ 146,616
	6/6/07(4)	\$	\$	\$				6,680	\$ 44.70	\$ 44.34	\$ 121,939
	12/31/07(5)	\$ 99,375	\$ 132,500	\$ 265,000					\$	\$	\$

- (1) Under the Company's long-term incentive compensation plans, option and stock awards must be made at or above the fair market value of the common stock on the date of grant. Such plans define fair market value as the average of the high and low trading prices on the date of grant. This average may be higher or lower than the closing price per share as reported on the NYSE.
- (2) Represents the value of performance units based on the Company's cumulative earnings per share, as adjusted, over the three-year period ending December 31, 2010. Provided the Company achieves a threshold cumulative earnings per share of \$7.50 over the period, the payout percentage will be prorated using a straight line interpolative for performance between the threshold (50% payout), target (100% payout) and maximum (150% payout) levels. Earnings per share will be adjusted to eliminate the effects of mergers, acquisitions, divestitures and other extraordinary non-recurring events. The units will be settled in cash at a value of \$1.00 per unit earned,



**Table of Contents**

- as determined at the end of the performance cycle, if the requisite thresholds are met. The number of units awarded to the named executive officers in 2007 were: Mr. Clarke (371,250 units), Mr. Farnsworth (126,230 units), Mr. Curcio (131,180 units), Mr. McCarthy (231,000 units) and Mr. Smith (131,180 units).
- (3) Represents restricted stock awards made to the named executive officers, which have the following material terms. The restrictions will lapse on June 6, 2010, provided the recipient has continuously served as an employee of the Company or a subsidiary since the grant date. The restrictions may lapse earlier upon a change in control. The restricted stock is subject to forfeiture if the recipient's service as an employee of the Company or a subsidiary terminates prior to June 6, 2010, other than as approved by the GNC Committee or as a result of a change in control.
- (4) Represents option grants to the named executive officers having the following material terms: (a) they will vest in one-third increments on the first, second and third anniversaries of the grant date; (b) they expire seven years after the grant date; (c) they have an exercise price equal to the average of the high and low prices of our common stock as reported on the NYSE on the grant date; and (d) they typically can be exercised only while employed by the Company, with certain longer exercise periods in the event of termination by reason of disability or death, or without cause. The grants to the named executive officers in June 2007 represented annual grants to executive officers and key employees of the Company.
- (5) Represents amounts potentially payable under the 2007 bonus plan at December 31, 2007. The bonus plan sets a threshold for funding the bonus pool, based on the Company's 2007 profit plan, but does not set a threshold at the individual level. Actual bonus awards to executive officers for 2007 have not yet been determined. See Compensation Discussion & Analysis Annual Cash Incentive Bonus for further information.

**Table of Contents****Outstanding Equity Awards At Fiscal Year-End 2007**

The following table provides information on outstanding equity awards outstanding at December 31, 2007 for each of our named executive officers.

Name	Option awards				Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price (\$)(2)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)		Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)
John U. Clarke	6,667(4)		\$ 11.6875	2/14/2010				
	2,500(4)		\$ 6.800	6/3/2013				
	2,667(4)		\$ 8.450	5/23/2012				
	2,500(4)		\$ 7.240	6/15/2014				
	39,500		\$ 8.085	12/7/2014				
	5,175	10,350	\$ 37.785	6/22/2016				
		18,900	\$ 47.700	6/6/2014				
					57,000(5)	\$ 3,086,550		
					9,280(6)	\$ 502,512	8,800(7)	\$ 476,520
Bradley P. Farnsworth	5,000	10,000	\$ 28.815	10/9/2016				
		6,430	\$ 44.700	6/6/2014				
					5,333(8)	\$ 288,782		
					3,160(6)	\$ 171,114		
Robert A. Curcio	3,466		\$ 8.055	9/9/2014				
	2,414	2,414	\$ 11.430	6/13/2015				
	1,588	3,175	\$ 37.785	6/22/2016				
		6,680	\$ 44.700	6/6/2014				
					8,690(6)	\$ 470,564		
							2,700(7)	\$ 146,205
Patrick M. McCarthy	37,500		\$ 12.910	5/25/2011				
	18,800		\$ 6.270	12/7/2011				
	20,000		\$ 8.055	9/16/2015				
	8,288	4,144	\$ 11.430	6/13/2015				
	3,434	6,866	\$ 37.785	6/22/2016				
		11,760	\$ 44.700	6/6/2014				
					7,900(6)	\$ 427,785		
							5,833(7)	\$ 315,857
C. Frank Smith	4,011		\$ 8.055	9/9/2014				
		2,662	\$ 11.430	6/13/2015				
	1,250	2,500	\$ 37.785	6/22/2016				
		6,680	\$ 44.700	6/6/2014				
					3,280(6)	\$ 177,612		
							2,125(7)	\$ 115,069

(1) All unvested options identified in this column will vest on the first, second and third anniversaries of their date of grant. The date of grant is ten years prior to the option expiration date listed with respect to all grants before 2007. For grants in 2007, the option expiration date is seven years after the grant date.

(2)

## Edgar Filing: NATCO GROUP INC - Form DEF 14A

Represents the average of the high and low prices reported with respect to our common stock on the NYSE on the grant or award date, consistent with the definition of fair market value in each of our long-term incentive compensation plans.

- (3) The market value is determined based on the closing price of a share of the Company's common stock on the last trading day of the year, as reported on the NYSE. Our closing price on December 31, 2007 was \$54.15.
- (4) Mr. Clarke was elected as Chairman in September 2004 and served as interim Chief Executive Officer from September 2004 to December 2004. He was elected as Chief Executive Officer in December 2004. Mr. Clarke served as an independent director and Chair of the GNC Committee during 2004, prior to his

**Table of Contents**

- election as interim Chief Executive Officer. Represents restricted stock and options awarded to Mr. Clarke for his service as a director, non-executive Chairman of the Board and Chair of the GNC Committee, prior to his employment with the company.
- (5) These shares of restricted stock were awarded for service as CEO pursuant to the terms of Mr. Clarke's employment agreement. Restrictions on this grant of restricted stock lapsed on January 5, 2008, the third anniversary of the grant date.
- (6) Restrictions on these grants of restricted stock lapse on June 6, 2010, the third anniversary of the date of grant. Restrictions may earlier lapse as to all of the shares pursuant to the applicable stock incentive plan or upon occurrence of a corporate change as defined in such plan.
- (7) Represents restricted stock awards which have the following material terms. The restrictions will lapse on August 15, 2009, provided (a) the Company has achieved normalized earnings per share of at least \$2.25 calculated on a trailing twelve months basis as of the last day of a quarter, for three consecutive quarters on or before that date; and (b) the recipient has continuously served as an employee of the Company or a subsidiary since the grant date. The restrictions may lapse earlier upon a change in control. The restricted stock is subject to forfeiture if (1) the recipient's service as an employee of the Company or a subsidiary terminates prior to August 15, 2009 or (2) the performance goal is not attained on or before August 15, 2009.
- (8) Represents shares of restricted stock issued on Mr. Farnsworth's first day of employment with the Company. The restricted stock has the following material terms. The restrictions lapse in one-third increments on each of the first, second and third anniversaries of the date of grant, or earlier, pursuant to the terms of the applicable plan or upon occurrence of a change in control, subject to Mr. Farnsworth's continued employment on the date of the applicable event. As of October 9, 2007, restrictions lapsed with respect to 2,667 of these shares. The restrictions on the restricted stock may sooner lapse on the last day of the term of his employment in the event Mr. Farnsworth remains an employee of the Company during the term of his employment but does not enter into a successor employment agreement. See Employment Arrangements for Certain Named Executive Officers' Employment and Other Arrangements with Mr. Farnsworth.

**Options Exercised and Stock Vested in 2007**

The following table provides information regarding options exercised by the Company's named executive officers in 2007 and stock awards to our named executive officers that vested in 2007.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise (\$)(1)	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting (\$)(2)
John U. Clarke		\$	11,146	\$ 540,971
Bradley P. Farnsworth		\$	2,667	\$ 150,165
Robert A. Curcio	5,881	\$ 181,252		\$
Patrick M. McCarthy	16,667	\$ 677,180		\$
C. Frank Smith	58,347	\$ 2,254,878		\$

- (1) The value realized on exercise of option awards represents the market value received less the exercise price.
- (2) The value realized on vesting for stock awards represents the fair market value of a share of our common stock pursuant to the applicable plan on the date the restrictions lapsed. Fair market value is defined under our long-term incentive compensation plans as the average of the high and low trading prices of our common stock as reported on the NYSE on the date in question or, if no trades are reported on that date, on the trading date immediately preceding the date in question.

---

**Table of Contents**

**Employment Arrangements for Certain Named Executive Officers**

*Employment Agreements with Mr. Clarke and Mr. McCarthy.* Effective January 1, 2008, the Company entered into new employment agreements with Mr. Clarke and Mr. McCarthy (collectively in this section, Mr. Clarke and Mr. McCarthy are referred to in this report as the Executives and individually as an Executive ). The following is a summary of the agreements, which is qualified in its entirety by the actual terms and conditions of the respective agreements.

Each employment agreement is for a term expiring December 31, 2010, unless sooner terminated in accordance with its terms. Under their respective agreements, Mr. Clarke is entitled to receive an annual salary of at least \$500,000, and Mr. McCarthy is entitled to receive an annual salary of at least \$400,000. Mr. Clarke is eligible to receive an annual bonus with a target award of 100% of his base salary, and Mr. McCarthy is eligible to receive an annual bonus with a target award of 70% of his base salary, based on the Company's financial performance and other criteria to be determined annually by the Company's Board of Directors.

Under the employment agreements, the Executives are eligible to participate in the Company's long-term incentive plans and annual incentive bonus plan. Under his agreement, Mr. McCarthy also shall receive reimbursement for monthly expenses associated with his use of an automobile.

Upon any involuntary termination of employment by the Company or an Executive prior to expiration of the term, such Executive shall be entitled to receive his pro rata base salary and benefits (including payment for accrued, but unused, vacation) through the date of termination. Depending upon the type of involuntary termination, such Executive or his estate may be entitled to additional compensation and/or benefits, as described below:

Upon an involuntary termination by the Company for any reason or by an Executive by reason of a material breach of the agreement by the Company or for certain other specified reasons, and after execution of a release and in consideration of his continuing obligations under the agreement (including his non-competition obligations), such Executive shall be entitled to (1) one year's annual base salary; (2) a pro rata share of the target bonus compensation earned by him under any applicable bonus plan then in effect through the date of termination; (3) for Mr. Clarke, the continuation of health insurance and dental insurance benefits for Mr. Clarke and eligible dependents for up to one year following the termination date; for Mr. McCarthy, reimbursement for all COBRA expenses related to health insurance and dental insurance for a period of 18 months following the termination date; (4) continuation of life insurance benefits for such Executive, for up to one year following the termination date; and (5) any deferred compensation previously earned under any of the Company's plans. Additionally, Mr. McCarthy shall be entitled to a one-time payment in the amount of \$210,000, and he may exercise any of his stock options that are outstanding and then vested, at any time on or before 90 days from the involuntary termination date.

If a Change in Control (as defined in the employment agreements) occurs within 24 months following such an involuntary termination, the Executive shall be entitled to (1) an amount equal to 2.99 times his annual base salary; (2) an amount equal to 2.99 times the target bonus compensation at the greater of his target bonus in effect (A) at the time notice of termination is given or (B) immediately preceding the Change of Control date, offset by any payment he previously received under the foregoing provision; (3) continuation of health and dental insurance benefits for such Executive and eligible dependents for 18 months following the termination date; (4) continuation of life insurance benefits for such Executive for up to 18 months following the termination date; (5) the cash-equivalent of the value of an additional 18 months of health, dental, and life insurance benefits; and (6) any deferred compensation previously earned under any of the Company's plans to the extent not previously paid. In addition, all outstanding unvested stock options held by such Executive shall fully vest as of the Change in Control Date and become immediately exercisable, all restrictions on any restricted stock held by such Executive shall lapse as of the Change in Control Date, and all vesting and/or performance requirements on any forms of awards granted to such Executive under any incentive plans

---

**Table of Contents**

shall automatically accelerate and/or deemed to have been met at target levels, unless such treatment will cause the award to become subject to Section 409A of the Internal Revenue Code of 1986, as amended (the Code). In addition, any such stock options shall be exercisable for 12 months after the date of termination, unless the term of the stock options expires before the end of such exercise period, in which case the stock options shall be exercisable until the expiration of their term. Additionally, Mr. McCarthy shall receive cash in the amount of any bonus to which he would have become entitled to for any completed fiscal year prior to the fiscal year in which the termination date occurs, to the extent such bonus had not been previously paid.

If a Change in Control occurs within 6 months following an involuntary termination, the Executive shall be entitled to the same benefits enumerated in (1) (6) above with regard to termination following a Change in Control. In addition, such Executive shall receive a cash payment in an amount equal to the sum of (a) with respect to any stock option that was forfeited as of the date of his termination of employment, equal to the difference between the closing price of the Company's common stock on the Change of Control date and such option's exercise price (or, if the term of such option would have expired before the Change of Control date, the difference between the closing price of the Company's common stock as of the date of such option's expiration date and such option's exercise price), (b) with respect to any restricted stock that is forfeited as of the date of his termination of employment, equal to the aggregate closing price of such stock as of the Change of Control date, and (c) with respect to any other form of incentive compensation award under the Company's long-term incentive compensation plans, the amount of such award as of the Change in Control Date, with such payment to be made within 30 days of the Change of Control date. Additionally, Mr. McCarthy shall receive cash in the amount of any bonus to which he would have become entitled to for any completed fiscal year prior to the fiscal year in which the termination date occurs, to the extent such bonus had not been previously paid.

Upon an involuntary termination by reason of an Executive's death or disability, such Executive or his beneficiaries shall be entitled to (1) a pro rata share of the amount of the target bonus compensation earned by him under any applicable bonus plan then in effect through the date of termination; (2) any deferred compensation previously earned under any of the Company's plans; and (3) continuation of health insurance and dental insurance benefits for 18 months following the termination date.

Upon his termination of employment, the Executive will be subject to a one-year non-competition and non-solicitation provision under the employment agreements.

*Employment and Other Arrangements with Mr. Farnsworth.* On October 9, 2006, we entered into an employment agreement with Mr. Farnsworth, pursuant to which he is serving as our senior vice president and chief financial officer. The material terms of his agreement are summarized below.

The agreement is for a term expiring October 8, 2008 unless sooner terminated in accordance with its terms. Under the agreement, Mr. Farnsworth is entitled to receive an annual salary of at least \$240,000 (his current salary is \$273,000) and is eligible to receive an annual bonus with a target award of 50% of his base salary, based on our financial performance and other criteria to be determined annually by our Board.

Under the agreement, on October 9, 2006, Mr. Farnsworth was awarded nonqualified stock options to acquire up to 15,000 shares of our common stock under the 2001 Stock Incentive Plan having an exercise price equal to the fair market value of our common stock on the date of grant, vesting in three equal installments on the first, second and third anniversaries of the date of grant and having a term of 10 years or earlier, upon occurrence of a Corporate Change. He also was awarded, on October 9, 2006, 8,000 restricted shares under our 2001 Stock Incentive Plan, with the restrictions to lapse in one-third increments on each of the first, second and third anniversaries of the date of grant, subject to certain adjustments and conditions, or, if earlier, pursuant to Section VIII of the plan or upon occurrence of a Corporate Change, subject to Mr. Farnsworth's continued employment on the date of the applicable event. Notwithstanding the foregoing, the options may sooner vest and the



---

**Table of Contents**

restrictions on the restricted stock may sooner lapse on the last day of the term of his employment in the event Mr. Farnsworth remains an employee of the Company during the term of his employment but does not enter into a successor employment agreement.

Upon any involuntary termination (as defined below) of the employment relationship by us or Mr. Farnsworth prior to expiration of the term, Mr. Farnsworth shall be entitled to receive his pro rata base salary and benefits (including payment for accrued, but unused, vacation) through the date of termination and the additional compensation and/or benefits described below.

Upon an involuntary termination by the Company for any reason, or by Mr. Farnsworth by reason of a material breach by us of the terms of the agreement or for certain other reasons specified in the agreement, after execution of a release and in consideration of his continuing obligations under the agreement after termination, Mr. Farnsworth shall be entitled to (1) (A) six months' annual base salary if the involuntary termination occurs in the first year of the employment term or (B) the greater of six months' base salary and salary payable for the remainder of the employment term if the involuntary termination occurs in the second year of the term; (2) an amount equal to the greater of (A) the target bonus compensation in effect at the time notice of termination is given or (B) the target bonus compensation in effect immediately preceding the Change of Control Date (as defined below), offset by any payment he has previously received under the foregoing provision; (3) continuation of health insurance, dental insurance and life insurance benefits for Mr. Farnsworth and eligible dependents for 6 months following the termination date; and (4) any deferred compensation previously earned under any of our plans to the extent not previously paid.

In addition, notwithstanding the terms of the any related incentive plan or agreement, or any award agreement evidencing awards of stock options or restricted stock to purchase our common stock, in the event of a Change of Control while Mr. Farnsworth is employed by us, (a) all outstanding stock options held by him shall fully vest as of the Change of Control Date and become immediately exercisable in accordance with their terms, (b) all restrictions on any of our restricted stock held by him shall lapse as of the Change of Control Date and (c) any such stock options shall be exercisable for 90 days after the date of termination, unless the term of the stock options expires before the end of such period, in which case the stock option shall be exercisable until the expiration of its term.

Involuntary termination is defined to include (1) any termination of Mr. Farnsworth by the Company other than for cause, and (2) termination by Mr. Farnsworth (A) by reason of death, disability or material breach by the Company of the terms of the agreement, which breach is not cured after a period of 30 days or (b) within 90 days of a substantial reduction in Mr. Farnsworth's scope of employment or salary or a move in office location to a city more than 100 miles away.

Effective January 1, 2008, the GNC Committee approved changes to certain employment agreements, severance pay policies and 2006 performance unit award agreements in order to comply with Section 409A of the Code. The Company intends to enter into an amended and restated employment agreement with Mr. Farnsworth to address these Section 409A changes. The other terms and conditions of his employment agreement will remain the same.

*Employment, Change in Control and Other Arrangements with Other Executive Officers.* In June 2006, the Company entered into an Amended and Restated Senior Management Change in Control and Severance Agreement with its Executive and Senior Vice Presidents not otherwise having employment agreements (Robert A. Curcio, Katherine P. Ellis, Frank Smith, David R. Volz, Jr. and Joseph H. Wilson) (collectively, the Restated CIC Agreements). The Restated CIC Agreements modify certain Senior Management Change in Control Agreements, as amended, previously entered into with each of such officers. In addition, in 2006 and early 2007, the Company entered into a Senior Management Change in Control and Severance Agreement (collectively with the Restated CIC Agreements, the CIC Agreements) with certain vice presidents of the Company or its subsidiaries. The material terms of the CIC Agreements are summarized below.

---

**Table of Contents**

The CIC Agreements are for an initial term of three years, but renew for successive one-year periods unless terminated earlier as provided in the agreement. If, during the 24-month period following a change in control, the executive's employment is terminated by us other than for cause, or by the executive for good reason (as defined in the CIC Agreements), the Company is obligated to pay (1) the executive's salary and accrued vacation through the date of termination, (2) annual bonus earned through the date of termination, (3) an amount equal to two times the executive's base salary at the time of termination or of notice of a change in control, whichever is greater, (4) an amount equal to two times the executive's target bonus at the time of termination or of notice of a change of control, whichever is greater, and (5) the executive's health, dental and life insurance benefits for a period of two years following the date of termination. These payments are in lieu of any other severance to which the executive may be entitled under other severance arrangements of the Company, and are in addition to any stock options, restricted stock or other long-term incentive compensation awards granted to the executive. Upon the occurrence of a change in control, the executive's stock options shall vest immediately, restrictions on his restricted stock shall lapse automatically and performance or other requirements of any other such awards shall be deemed immediately met, and certain of the executive's options may have extended exercise periods.

The CIC Agreements also provide for payment of severance to the executive in the event of termination without cause, for reasons other than a change in control. In such event, the executive is entitled to receive a lump sum in cash equal to his or her annual base salary at the time of termination plus the continuation of certain health, dental and life insurance benefits for a period of one year following the date of termination.

In January 2006, we entered into an employment agreement with Knut Eriksen to serve as Senior Vice President Engineered Systems of our Oil & Water Technologies segment, which was amended in June 2006. Upon any involuntary termination of Mr. Eriksen's employment relationship by us or by Mr. Eriksen prior to expiration of the term of the applicable agreement, he shall be entitled to receive his pro rata base salary and benefits (including payment for accrued, but unused, vacation) through the date of termination. Depending upon the type of involuntary termination, he or his estate may be entitled to additional compensation and/or benefits, as described below.

Upon an involuntary termination by our independent directors for any reason or by Mr. Eriksen by reason of a material breach by us of the terms of his agreement or for certain other specified reasons, after execution of a release and in consideration of his continuing obligations under such agreement after termination (including his non-competition obligations), he shall be entitled to (1) an amount equal to one year's annual base salary; (2) a pro rata share of the target bonus compensation earned by him under any applicable bonus plan then in effect through the date of termination; (3) continuation of health insurance, dental insurance and life insurance benefits for him and his eligible dependents for up to one year following the termination date; and (4) any deferred compensation previously earned under any of our plans.

If a Change in Control (as defined in the agreement) occurs within 6 months following such an involuntary termination, he shall be entitled to (1) an amount equal to 2.0 times one year's annual base salary, with the amount of such payment to be offset by any payment he has previously received under the foregoing provision; (2) an amount equal to 2.0 times the target bonus compensation at the greater of (A) the target bonus compensation in effect at the time notice of termination is given or (B) the target bonus compensation in effect immediately preceding the Change of Control Date (as defined below), offset by any payment he has previously received under the foregoing provision; (3) continuation of health insurance, dental insurance and life insurance benefits for the executive and eligible dependents for 24 months following the termination date; and (4) any deferred compensation previously earned under any of our plans to the extent not previously paid. In addition, he shall receive a cash payment (a) with respect to any stock option that was forfeited as of the date of his termination of employment, equal to the difference between the closing price of our common stock as of the Change of Control Date and such option's exercise price (or, if the term of such option would have expired before the Change of Control Date, the difference between the closing price of our common stock as of the date of such option's expiration date and such option's exercise price) and (b) with

---

**Table of Contents**

respect to any restricted stock that is forfeited as of the date of his termination of employment, equal to the closing price of such stock as of the Change of Control Date, with such payment to be made within 30 days of the Change of Control Date.

Upon an involuntary termination by reason of Mr. Eriksen's death or disability, he or his beneficiaries shall be entitled to (1) a pro rata share of the amount of the target bonus compensation earned by him under any applicable bonus plan then in effect through the date of termination; and (2) any deferred compensation previously earned under any of our plans.

Upon an involuntary termination by our independent directors for any reason or by Mr. Eriksen by reason of a material breach by us of the terms of the agreement or for certain other reasons specified in the agreement within 12 months following a Change of Control, after execution of a release and in consideration of his continuing obligations under the agreement after such termination, the executive shall be entitled to (1) an amount equal to 2.0 times one year's annual base salary; (2) an amount equal to the product of 2.0 times the target bonus compensation at the greater of (A) the target bonus compensation in effect at the time notice of termination is given or (B) the target bonus compensation in effect immediately preceding the Change of Control Date; (3) continuation of health insurance, dental insurance and life insurance benefits for the executive and his eligible dependents for 24 months following the date of termination; and (4) any deferred compensation previously earned under any of our plans. In addition, notwithstanding the terms of the any related incentive plan or agreement, or any award agreement evidencing awards of stock options or restricted stock to purchase our common stock, in the event of a Change of Control while the executive is employed by us, (a) all outstanding stock options held by him shall fully vest as of the Change of Control Date and become immediately exercisable in accordance with their terms, (b) all restrictions on any of our restricted stock held by him shall lapse as of the Change of Control Date and (c) any such stock options shall be exercisable for 12 months after the date of termination, unless the term of the stock options expires before the end of such period, in which case the stock option shall be exercisable until the expiration of its term.

Upon his termination of employment, Mr. Eriksen will be subject to a one-year non-competition and non-solicitation provision under the employment agreement. Effective January 1, 2008, the GNC Committee approved changes to certain employment agreements, severance pay policies and 2006 performance unit award agreements in order to comply with Section 409A of the Code. The Company intends to enter into an amended and restated employment agreement with Mr. Eriksen to address these Section 409A changes. The other terms and conditions of his employment agreement will remain the same.

The Board of Directors awards options and restricted stock to key employees, including the named executive officers, from time to time as part of their overall compensation. The various agreements with respect to these grants generally provide that, to the extent the options subject to these grants have not vested prior to a change in control, and to the extent restrictions on restricted stock subject to these grants have not lapse prior to a change in control, all such options shall vest, and all restrictions on the restricted stock shall lapse upon such change in control.

*General.* For purposes of the above-referenced employment and change in control agreements, to the extent that any benefit, payment or distribution by the Company under the agreement would be subject to the excise tax imposed by Section 4999 of the Code, then such amount will be reduced to the extent necessary to avoid the imposition of the excise tax.

Compensation policies in the event of a change in control are reviewed regularly to ensure that the policies reflect terms and conditions consistent with those adopted by comparable companies and that are in our best interests. The Board of Directors or the GNC Committee may change such policies as the facts and circumstances dictate.

**Table of Contents****Potential Payments upon Termination or Change in Control**

The following table quantifies the payments and other benefits that would have been payable to the Company's named executive officers under the arrangements discussed above had a change in control or termination of employment occurred on December 31, 2007. For purposes of valuing the benefit of long-term incentive compensation grants, we have assumed a Company stock price of \$54.15, which is equal to the closing price of a share of common stock as reported on the NYSE on December 31, 2007, the last trading day of the year. For purposes of valuing amounts payable to Mr. Clarke, Mr. Curcio and Mr. McCarthy, we have used salary and bonus amounts, as well as bonus targets, that became effective in early January 2008. See "Employment Arrangements for Certain Named Executive Officers" for a discussion of the agreements and other arrangements with our senior executives providing for payment upon termination or a change in control.

*Potential Payments on Termination Under Various Scenarios\**

	<b>John Clarke</b>	<b>Bradley P. Farnsworth</b>	<b>Robert A. Curcio</b>	<b>Patrick M. McCarthy</b>	<b>C. Frank Smith</b>
<i>Estimated payout on involuntary termination without cause:</i>					
Cash Severance	\$ 500,000	\$ 227,500	\$ 315,000	\$ 400,000	\$ 285,000
Continuation of health benefits (1)	\$ 21,600	\$ 10,800	\$ 21,600	\$ 32,400	\$ 21,600
Life insurance premiums (2)	\$ 1,083	\$ 607	\$ 695	\$ 873	\$ 632
Noncompete payment	\$	\$	\$	\$ 210,000	\$
Pro rata bonus through termination date at target	\$ 500,000	\$ 136,500	\$	\$ 280,000	\$
<b>Total estimated payout</b>	<b>\$ 1,022,683</b>	<b>\$ 375,407</b>	<b>\$ 337,295</b>	<b>\$ 923,273</b>	<b>\$ 307,232</b>
<i>Estimated payout on change in control and termination of executive:</i>					
Cash Severance	\$ 1,495,000	\$ 227,500	\$ 630,000	\$ 1,196,000	\$ 570,000
Continuation/reimbursement of health benefits (1)	\$ 64,800	\$ 10,800	\$ 43,200	\$ 64,800	\$ 43,200
Life insurance premiums (2)	\$ 1,083	\$ 607	\$ 695	\$ 873	\$ 632
Bonus at Target	\$ 1,495,000	\$	\$ 315,000	\$ 837,200	\$ 285,000
Pro rata bonus through termination date at target	\$ 500,000	\$ 136,500	\$ 315,000	\$ 280,000	\$ 285,000
Immediate vesting of all unvested options	\$ 347,983	\$ 314,114	\$ 218,211	\$ 400,526	\$ 217,759
Immediate lapse of restrictions on restricted stock (3)	\$ 4,065,582	\$ 459,896	\$ 616,769	\$ 743,642	\$ 292,681
Immediate vesting of performance units at target	\$ 635,250	\$ 126,230	\$ 212,180	\$ 406,000	\$ 195,180
<b>Total estimated change in control payout</b>	<b>\$ 8,604,698</b>	<b>\$ 1,275,647</b>	<b>\$ 2,351,055</b>	<b>\$ 3,929,041</b>	<b>\$ 1,889,452</b>
<i>Estimated payout on death of executive:</i>					
Pro rata bonus through termination date at target	\$ 500,000	\$ 136,500	\$	\$ 280,000	\$
Immediate vesting of performance units at target	\$ 635,250	\$ 126,230	\$ 212,180	\$ 406,000	\$ 195,180
Life insurance payout (2)	\$ 500,000	\$ 273,000	\$ 315,000	\$ 400,000	\$ 285,000
Continuation/reimbursement of health benefits(1)	\$ 32,400	\$	\$	\$ 32,400	\$
<b>Total estimated payout</b>	<b>\$ 1,667,650</b>	<b>\$ 535,730</b>	<b>\$ 527,180</b>	<b>\$ 1,118,400</b>	<b>\$ 480,180</b>

**Table of Contents****Potential Payments on Termination Under Various Scenarios\***

	<b>John Clarke</b>	<b>Bradley P. Farnsworth</b>	<b>Robert A. Curcio</b>	<b>Patrick M. McCarthy</b>	<b>C. Frank Smith</b>
<b>Estimated payout on retirement of executive:(4)</b>					
Cash Severance	\$	\$	\$	\$	\$
Continuation/reimbursement of health benefits (1)	\$ 32,400	\$	\$	\$ 32,400	\$
Pro rata bonus through termination date at target	\$	\$	\$	\$	\$
Immediate vesting of performance units at target	\$	\$	\$	\$ 406,000	\$ 64,000
<b>Total estimated payout</b>	<b>\$ 32,400</b>	<b>\$</b>	<b>\$</b>	<b>\$ 438,400</b>	<b>\$ 64,000</b>
<b>Estimated payout on disability of executive:</b>					
Pro rata bonus through termination date at target	\$ 521,600	\$ 136,500	\$	\$ 280,000	\$
Immediate vesting of performance units at target	\$ 635,250	\$ 126,230	\$ 212,180	\$ 406,000	\$ 195,180
Continuation/reimbursement of health benefits (1)	\$ 32,400	\$ 10,800	\$	\$ 32,400	\$
Short-term disability (5)	\$ 250,000	\$ 136,500	\$ 157,500	\$ 200,000	\$ 142,500
Long-term disability (6)	\$ 960,000	\$ 960,000	\$ 960,000	\$ 960,000	\$ 960,000
Disability insurance (7)	\$ 500,000	\$ 273,000	\$ 315,000	\$ 400,000	\$ 285,000
<b>Total estimated payout</b>	<b>\$ 2,899,250</b>	<b>\$ 1,870,030</b>	<b>\$ 1,829,680</b>	<b>\$ 1,542,400</b>	<b>\$ 1,797,680</b>
<b>Estimated payout on voluntary resignation not related to change in control or for good reason:</b>					
Bonus at Target	\$	\$	\$	\$ 280,000	\$
Noncompete payment	\$	\$	\$	\$ 210,000	\$
Continuation of health benefits (1)	\$	\$	\$	\$ 32,400	\$
<b>Total estimated payout</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 522,400</b>	<b>\$</b>
<b>Estimated payout on terminate of executive for cause:</b>					
Cash Severance/Noncompete	\$	\$	\$	\$	\$
Bonus at Target	\$	\$	\$	\$	\$
Continuation of health benefits (1)	\$	\$	\$	\$	\$
<b>Total estimated payout</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

\* The Company entered into new employment agreements with Mr. Clarke and Mr. McCarthy on January 1, 2008, and increased Mr. Curcio's salary effective on that date, coincident with his promotion to Executive Vice President. Because these changes made a meaningful difference in the termination payments payable to such officers in certain events, the Company has elected to present this information as of December 31, 2007, but utilizing the increased salary and target bonus amounts. The Company believes this presentation will provide a clearer understanding to stockholders of payments that would be payable by the Company to the executives in the event of a future termination.

- (1) Assumes a benefit of \$1,800 per month for continuation coverage.  
(2) Represents one year's life insurance premiums paid for by the Company in the case of involuntary termination without cause or a termination following a change in control. Represents the face value of the

**Table of Contents**

Company-paid life insurance in the case of death. Does not include voluntary coverage purchased by Executive through the Company that is not included in the above table.

- (3) Based on the closing price for our common stock of \$54.15 at December 31, 2007. For Mr. Clarke, approximately \$3.0 million in value relates to a single grant made in January 2005, the restrictions on which lapsed on January 5, 2008. The above chart does not reflect awards of 45,000 and 30,000 shares of restricted stock made on January 2, 2008 to Mr. Clarke and Mr. McCarthy, respectively. If these changes were reflected in the above table utilizing the closing stock price at December 31, 2007, the potential payments to Mr. Clarke and Mr. McCarthy attributable to the immediate vesting of these restricted stock awards would be \$2,436,750 and \$1,624,500, respectively.
- (4) The Company generally does not have retirement benefits. Retirement for purposes of the performance units is defined as retirement after age 60 or after serving 10 years.
- (5) Short-term disability is provided by the Company for up to 26 weeks. The amounts included in the above table represent the maximum amount payable to the executive had the executive become disabled at the end of the year.
- (6) Long-term disability is paid through a third-party insurance carrier through age 65. Long-term disability is not paid until short-term disability has been exhausted. The amounts included in table above include the maximum payable for long-term disability through age 65 following exhaustion of the executive's short-term disability layer.
- (7) Represents amounts payable under accidental death and dismemberment insurance paid by the Company. Does not include voluntary coverage purchased by Executive through the Company that is not included in the above table.

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

During the year ended December 31, 2007, we did not guarantee obligations for any related party, other than our majority-owned subsidiaries. There are no debt obligations of related parties to us or of us to related parties, for which we have responsibility, excluded from our balance sheet. We hold a minority interest in two entities, and in the future may be asked to guarantee certain of their obligations, consistent with our interest in such entities, and on a joint and several basis with other parties to the entities. There are no family relationships (by blood, marriage or adoption, not more remote than first cousin) between any director, executive officer or nominee for director or executive officer of the Company.

See Corporate Governance Compensation Committee Interlocks and Insider Participation for information regarding transactions between the Company and certain directors who served on the GNC Committee during 2007.

The Board of Directors adopted a statement of policy for the review, approval or ratification of transactions with related persons in February 2007. The policy applies to any transaction that the Company would be required to be publicly disclose by the rules of the Securities and Exchange Commission as a transaction with a related person, including any transaction (1) in which the Company or a subsidiary is a party, (2) the amount involved exceeds \$120,000 and (3) a director or executive officer of the Company, any nominee for director or any stockholder owning greater than 5% of the Company's equity securities, or any member of the immediate family of such person, is a party. Compensation of a director or executive officer approved by the Board or the GNC Committee is excluded from this definition, as are ordinary course advances and reimbursements, and transactions in which the related person's interest only arises from the person's position as a director of another entity that is a party to the transaction or the ownership by such person (with all other related persons) of less than 10% of the equity of the other entity involved and, if such entity is a partnership, no related person is the general partner of such partnership. Transactions subject to the policy must be approved or ratified by the Board of Directors, with any director who is a related person in relation to the transaction abstaining (although such director may be counted as present at the meeting for purposes of determining a quorum). The Board may delegate consideration of a transaction to the GNC Committee or other standing committee of at least three members (with any committee member who is a related person excusing himself or herself from the matter). Under the policy, the material facts of the related person's interest must be disclosed to the Board or Committee considering the matter. In approving or ratifying any transaction, the Board or Committee considering the matter must determine that the transaction is fair and reasonable to the Company. The considering body is not required to seek a fairness opinion or other third party support or advice regarding the fairness of the transaction, but may do so in its discretion. If the transaction requires approval of stockholders under applicable law or rules of the NYSE, the matter also shall be subject to required stockholder approval.

---

**Table of Contents**

**COMMITTEE REPORTS**

**Governance, Nominating & Compensation Committee Report**

The Governance, Nominating & Compensation, or GNC, Committee of the Board of Directors is responsible for overseeing the development of executive compensation policies that support the Company's strategic business objectives and values. The GNC Committee has oversight responsibility in establishing compensation levels for executive officers, setting guidelines for company-wide compensation and employee benefit policies and administering our bonus plans and stock incentive plans. The Company's objectives in compensation for executive officers and key employees are to attract and retain talented and experienced people who will contribute to the long-term success of the Company, to inspire executive officers to work as a team to pursue our goals and to align executive officers' interests to those of the Company, by providing for bonuses tied to Company performance, and to stockholders, by providing stock options and restricted stock awards as a portion of compensation. The GNC Committee monitors general market conditions, changes in regulations and tax laws and other developments that may, from time to time, require modification of the executive compensation program to ensure the program is properly structured to achieve its objectives.

In making compensation determinations, the GNC Committee evaluates a number of factors throughout each year, including the Company's performance relative to our annual objectives, our performance relative to changes in the industry and each executive officer's contribution to our performance during the year. The GNC Committee does not apply any particular formula or assign any particular weight to any factors it considers in determining an executive's compensation. Instead, the committee considers all of these factors together and makes a subjective determination with respect to executive compensation. The annual base salary, bonus, restricted shares and stock option awards paid or awarded to our Chief Executive Officer, Chief Financial Officer and our other three most highly compensated executive officers for 2007 are set forth in summary form in the Summary Compensation Table included elsewhere in this proxy statement.

The GNC Committee operates under a revised charter that was adopted by the Board of Directors in February 2007. The GNC Committee met six times during 2007 with the Company's management, as part of its role in providing oversight of executive compensation, governance and nominating matters.

During 2007, the GNC Committee consisted of three independent, non-management directors. Mr. Knudson (Chair) and Mr. Bates served for the full year. Mr. Winokur served from January 2007 to his retirement in May, and Mrs. Edwards has served from May 2007 to the present. Each director who served on the GNC Committee during 2007 met the applicable independence requirements of federal securities laws and regulations and the rules of the NYSE applicable for service on a nominating or compensation committee.

In performing its oversight function, the GNC Committee has reviewed and discussed with the Company's management the Compensation Discussion & Analysis included in this proxy statement. Based on the foregoing review and discussions, the GNC Committee recommended to our Board of Directors the inclusion of the Compensation Discussion & Analysis included in this proxy statement and its incorporation by reference into the Company's annual report on Form 10-K for the year ended December 31, 2007.

The Governance, Nominating & Compensation Committee:

Thomas C. Knudson (Chair)

Thomas R. Bates, Jr.

Julie H. Edwards

**Audit Committee Report**

The Audit Committee operates under a revised charter that was adopted by the Board of Directors in February 2005. The Audit Committee met twelve times during 2007 with the Company's financial management



**Table of Contents**

and our independent registered public accounting firm, KPMG LLP, as part of its role in providing oversight to the financial reporting process and internal control structure. From time to time at the Audit Committee's request, KPMG LLP met with the Audit Committee, without NATCO management representatives present, to discuss the results of their examinations and the quality of the Company's reporting.

During 2007, the Audit Committee consisted of three independent directors, Mr. Allan, Mrs. Edwards and Mr. Hickox, each of whom met the applicable independence requirements of federal securities laws and regulations and the rules of the NYSE. Mrs. Edwards serves as the Chair of the Audit Committee and as the audit committee financial expert.

In performing its oversight function, the Audit Committee has reviewed and discussed with the Company's management and independent public accountants the audited financial statements for the year ended December 31, 2007 and unaudited quarterly operating results prior to their issuance. In addition, the Audit Committee discussed with KPMG LLP matters required by Statement on Auditing Standards No. 61, as amended. The Audit Committee also received and reviewed the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 and discussed with KPMG LLP their independence. The Audit Committee also reviewed and discussed with our management and with KPMG LLP such other matters and received such assurances from these parties that they deemed appropriate. Based on the foregoing review and discussions, the Audit Committee recommended to our Board of Directors the inclusion of our audited financial statements in the Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission.

The Audit Committee has adopted a policy to pre-approve all audit and non-audit services of the Company's independent registered public accounting firm. These may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year, is detailed as to the particular service or category of services and is generally subject to a specific budget. The Audit Committee has delegated to its Chair authority to pre-approve engagements of our independent registered public accounting firm or other accountants to perform audit or non-audit services in amounts of up to \$100,000 per engagement, subject to her subsequently reporting to the committee as to any engagement she approves. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. None of the services provided by the independent registered public accounting firm under the categories Audit-Related, Tax Services and All Other Fees, below, were approved by the Audit Committee pursuant to the waiver of pre-approval provisions set forth in Rule 2-01(c) of Regulation S-X.

The Audit Committee also considered whether the provision of the non-audit services listed below is compatible with maintaining the independence of KPMG LLP. The Audit Committee determined that such services were compatible with KPMG LLP's independence.

The following table identifies various fees billed in 2006 and 2007 for services rendered by KPMG LLP.

	2006	2007
Audit Fees	\$ 1,718,815	\$ 1,687,010
Audit Related Fees	\$	\$
Tax Fees (1)	\$ 98,661	\$ 56,344
All Other Fees (2)	\$ 120,845	\$ 115,672
<b>Total</b>	<b>\$ 1,938,321</b>	<b>\$ 1,859,026</b>

- (1) Tax fees for the years ended December 31, 2006 and 2007 related primarily to tax compliance and consultation work in the US, UK and Canada.

---

**Table of Contents**

- (2) All other fees for the year ended December 31, 2006 related primarily to compliance matters, SEC review matters, the 2001 stock option repricing review, currency exchange matters and the filing of a registration statement for the Company's 2006 long-term incentive compensation plan. All other fees for the year ended December 31, 2007 related to compliance matters.

Because some of the services related to the integrated audit for a fiscal year will be performed and paid for in the following fiscal year, the information in the above table related to fees billed by KPMG does not reflect the actual cost of the integrated audit to the Company with respect to 2006 and 2007. The total fees paid to KPMG by the Company for the integrated audits attributable to the years ended December 31, 2006 and 2007 were approximately \$1,596,693 and \$1,580,000, respectively. As part of its oversight process, the Audit Committee reviews actual cost to the Company for the integrated audit annually, prior to approving fees for the upcoming audit.

The Audit Committee:

Julie H. Edwards (Chair)

Keith K. Allan

George K. Hickox, Jr.

**MISCELLANEOUS**

**Section 16(a) Beneficial Ownership Reporting Compliance**

The Securities Exchange Act of 1934 requires our executive officers and directors, among others, to file certain beneficial ownership reports with the Securities and Exchange Commission. During 2007, all executive officers and directors filed on a timely basis all reports required to be filed during the year or prior years.

**Delivery of Proxy Materials to Stockholders Sharing an Address**

As permitted by the Securities Exchange Act, only one copy of the annual report and proxy statement is being delivered to stockholders residing at the same address, unless such stockholders have notified NATCO of their desire to receive multiple copies of these materials. NATCO will promptly deliver without charge, upon oral or written request, a separate copy of the annual report and proxy statement to any stockholder residing at a shared address to which only one copy was mailed. Requests for additional copies may be made by calling (713) 849-7500 or by writing to NATCO Group Inc., 11210 Equity Drive, Houston, TX 77041, Attention: Corporate Secretary. A stockholder may also use the same contact information to request (1) a notification to the Company that a separate annual report, proxy statement or notice of internet availability of proxy materials in the future or (2) that a single copy of such materials be delivered to a shared address.

**Stockholder Proposals for the 2009 Annual Meeting**

Proposals of stockholders intended to be presented at the 2009 annual meeting of stockholders must be received by us at our principal executive office by December 2, 2008, in order for such proposals to be included in our proxy statement and form of proxy. Stockholders submitting such proposals are requested to address them to the Corporate Secretary, NATCO Group Inc., 11210 Equity Drive, Houston, TX 77041.

In addition, our bylaws provide that only such business as is properly brought before the 2009 annual meeting of stockholders will be conducted. For business to be properly brought before the meeting or nominations of persons for election to the Board of Directors to be properly made at the annual meeting by a stockholder, notice must be received by the Corporate Secretary at the Company's offices not later than the close of business on the 40<sup>th</sup> day prior to the annual meeting. The notice to the Company also must provide:

a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting,

**Table of Contents**

the name and address, as they appear on the Company's books, of the stockholder proposing such business,

the class and number of shares of the Company that are beneficially owned by the stockholder and

any material interest of the stockholder in such business.

The stockholder also must comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, with respect to stockholder proposals. A copy of our bylaws may be obtained upon written request to the Corporate Secretary indicated above.

**Other Matters**

Please vote by telephone or over the Internet, or fill in, sign and date the proxy card and return it in the accompanying prepaid envelope. If you attend the annual meeting and wish to vote your shares in person, you may do so. Your prompt attention to this matter is greatly appreciated.

Katherine P. Ellis  
*Senior Vice President, Corporate Secretary & General  
Counsel*

March 26, 2008

**Table of Contents**

**NATCO Group Inc.**

**11210 Equity Drive**

**Houston, TX 77041**

**PROXY FOR ANNUAL MEETING OF STOCKHOLDERS**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints C. Andrew Smith, Katherine P. Ellis and Bradley P. Farnsworth, and each of them, with full power of substitution to vote the shares of NATCO Group Inc. Common Stock which the undersigned may be entitled to vote, and with all power the undersigned would possess, if personally present at the annual meeting of stockholders of NATCO Group Inc. to be held at the offices of the Company, 11210 Equity Drive, Houston, Texas on the 8<sup>th</sup> day of May 2008, at 10:00 a.m. local time, or any reconvened meeting after an adjournment thereof.

**Please mark this proxy as indicated on the reverse side to vote on any item. If you do not specify a choice on this proxy, the proxy will be voted FOR the nominees for director named in the proxy statement and FOR the ratification of the appointment of the independent registered public accounting firm for the Company named in the proxy statement. If any other matter should be presented properly, this proxy will be voted in accordance with the discretion of the persons named above.**

**(To be dated and signed on reverse side.)**

**Address Change/Comments (Mark the corresponding box on the reverse side)**

**é Fold and Detach Here é**

**Table of Contents**

**Please mark here  
for address change  
or comments  
SEE REVERSE SIDE**

- 1. Proposal to elect three Class I members of the Board of Directors to hold office for three-year terms expiring at the annual meeting of the stockholders in 2011, and until their respective successors have been duly elected and qualified.

Nominees: For all nominees listed to the left Withhold authority to vote for all  
(except as marked to the contrary) nominees listed to the left

01 John U. Clarke

02 Thomas C. Knudson

03 Patrick M. McCarthy

(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee's name in the space provided below.)

- 2. To ratify the appointment of KPMG LLP as independent registered public accounting firm for the year ending December 31, 2008.  
FOR " AGAINST " ABSTAIN "

- 3. In their discretion the proxies are authorized to vote upon such other business as may properly come before this meeting.

\_\_\_\_\_  
Signature Signature Dated: \_\_\_\_\_, 2008  
Please sign name(s) exactly as printed on this card. When signing as attorney, executor, administrator, trustee or guardian, please give title as such.

é Fold and Detach Here é

**WE ENCOURAGE YOU TO TAKE ADVANTAGE OF INTERNET OR TELEPHONE VOTING,**

**BOTH ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.**

**Internet and telephone voting is available through 11:59 p.m. Eastern Time**

**the day prior to the annual meeting day.**

Edgar Filing: NATCO GROUP INC - Form DEF 14A

**Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.**

**Internet**

**<http://www.proxyvoting.com.ntg>**

**Telephone**

**1-866-540-5760**

**OR**

Use the internet to vote your proxy. Have your proxy card in hand when you access the website.

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

**Table of Contents**

Choose **MLink**<sup>SM</sup> for fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect**<sup>®</sup> at [www.melloninvestor.com/isd](http://www.melloninvestor.com/isd) where step-by-step

instructions will prompt you through enrollment.

**You can view the Annual Report and Proxy Statement on the internet at**

**<http://bnymellon.com.mobular.net/bnymellon/NTG>**

**Table of Contents**

**PROXY**

\_\_\_\_\_ *Shares of Series B Redeemable Convertible Preferred Stock*

*(represents \_\_\_\_\_ shares of common stock on an as converted basis)*

**NATCO Group Inc.**

**11210 Equity Drive**

**Houston, TX 77041**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints C. Andrew Smith, Katherine P. Ellis and Bradley P. Farnsworth, and each of them, with full power of substitution to vote the shares of NATCO Group Inc. Series B Redeemable Convertible Preferred Stock which the undersigned may be entitled to vote, and with all power the undersigned would possess, if personally present at the annual meeting of stockholders of NATCO Group Inc. to be held at the offices of the Company, 11210 Equity Drive, Houston, Texas on the 8<sup>th</sup> day of May 2008, at 10:00 a.m. local time, and any adjournment thereof.

**Please mark this proxy as indicated on the reverse side to vote on any item. If you do not specify a choice on this proxy, the proxy will be voted FOR the nominees for director named in the proxy statement and FOR the ratification of the appointment of the independent registered public accounting firm for the Company named in the proxy statement. If you wish to vote in accordance with the board of directors' recommendations, please sign the reverse side no boxes need to be checked.**

**(To be dated and signed on reverse side.)**

**Address Change/Comments (Mark the corresponding box on the reverse side)**



