

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 61325 / January 11, 2010**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3101 / January 11, 2010**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-13742**

|                         |   |   |
|-------------------------|---|---|
| <b>In the Matter of</b> | : |   |
| <b>NATCO GROUP INC.</b> | : | <b>ORDER INSTITUTING CEASE-AND-DESIST</b> |
|                         | : | <b>PROCEEDINGS, MAKING FINDINGS, AND</b>  |
|                         | : | <b>IMPOSING A CEASE-AND-DESIST ORDER</b>  |
|                         | : | <b>PURSUANT TO SECTION 21C OF THE</b>     |
|                         | : | <b>SECURITIES EXCHANGE ACT OF 1934</b>    |
| <b>Respondent.</b>      | : |   |
|                         | : |   |

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against NATCO Group Inc. (“Respondent” or “NATCO”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### **Summary**

1. In this Foreign Corrupt Practices Act case, TEST Automation & Controls, Inc. ("TEST"), a wholly owned subsidiary of oil field services provider NATCO Group Inc., created and accepted false documents while paying extorted immigration fines and obtaining immigration visas in the Republic of Kazakhstan. NATCO's system of internal accounting controls failed to ensure that TEST recorded the true purpose of the payments, and NATCO's consolidated books and records did not accurately reflect these payments.

#### **Respondent**

2. NATCO Group Inc., a Delaware corporation with its headquarters in Houston, Texas, designs, manufactures, and markets oil and gas production equipment and systems that are used worldwide. At the time of the events discussed in this Order, NATCO's common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and was listed on the New York Stock Exchange.<sup>2</sup>

#### **Other Relevant Entities**

3. TEST Automation & Controls, Inc. is a Louisiana corporation and, at all relevant times, was headquartered in Harvey, Louisiana. TEST is a wholly-owned subsidiary of NATCO.<sup>3</sup> TEST fabricates and sells control panels and packaged automation systems, as well as providing field services associated with repair, maintenance, inspection and testing of onshore and offshore control systems. TEST, at all relevant times, maintained a branch office in Kazakhstan ("TEST Kazakhstan").

#### **Facts**

##### **A. Background**

4. In June 2005, TEST Kazakhstan won a contract to provide instrumentation and electrical services in Kazakhstan. To perform the services, TEST Kazakhstan hired both expatriates and local Kazakh workers. Kazakhstan law required TEST to obtain immigration

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

<sup>2</sup> The registration of NATCO's common stock, and its listing on the NYSE, ended on November 18, 2009, when NATCO became a subsidiary of Cameron International Corporation ("Cameron"), a publicly held reporting corporation listed on the NYSE.

<sup>3</sup> TEST also became a subsidiary of Cameron, following NATCO's acquisition by Cameron.

documentation before an expatriate worker entered the country. Kazakhstan immigration authorities periodically audited immigration documentation of TEST Kazakhstan and other companies operating in Kazakhstan for compliance with local law.

## **B. Cash Payments to Kazakh Immigration Prosecutor**

5. In February 2007 and September 2007, Kazakh immigration prosecutors conducted audits and claimed that TEST Kazakhstan's expatriate workers were working without proper immigration documentation. The prosecutors threatened to fine, jail or deport the workers if TEST Kazakhstan did not pay cash fines.

6. Believing the prosecutor's threats to be genuine, employees with TEST Kazakhstan sought guidance from TEST's senior management in Harvey, Louisiana, who authorized making the payments. TEST Kazakhstan employees used personal funds to pay the prosecutors \$25,000 in February and \$20,000 in September, and then obtained reimbursement from TEST.

7. For the February 2007 payment, TEST made a \$25,000 wire transfer to the affected employee. TEST inaccurately described the transfer as "an advance against his [the paying employee's] bonus payable in March." Moreover, the email noted the bonus would be "substantial," to further disguise the true reason for the transfer. In addition, TEST's letter to the bank providing the wire instructions inaccurately described the payment as a "Payroll Advance." After the wire transfer was transmitted, TEST inaccurately recorded the payment in its books and records as a salary advance.

8. TEST made a \$20,000 wire transfer to reimburse the September 2007 payment. The wire transfer and journal entry in TEST's books described the purpose of the transfer as "visa fines."

## **C. Inaccurate Consultant Invoices for Visa Services**

9. TEST Kazakhstan used consultants to assist it in obtaining immigration documentation for its expatriate employees. One of these consultants did not have a license to perform visa services, but maintained close ties to an employee working at the Kazakh Ministry of Labor, the entity issuing the visas. On two instances, the consultant requested cash from TEST Kazakhstan to help him obtain the visas. Because Kazakh law requires companies seeking to withdraw cash from commercial bank accounts to submit supporting invoices, the consultant provided TEST Kazakhstan bogus invoices for "cable" from third-party entities he controlled. TEST Kazakhstan knew these invoices were false, but nonetheless presented them to Kazakh banks to withdraw the requested cash.<sup>4</sup> TEST Kazakhstan later submitted the false invoices – which totaled in excess of \$80,000 – to TEST for reimbursement. TEST reimbursed these requests despite knowing the invoices mischaracterized the true purpose of the services rendered.

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<sup>4</sup> It is not known how the consultant used these funds, or to whom they were paid.

## **D. Discovery of Payments, Internal Investigation, and Remediation**

10. During a routine internal audit review in late 2007, NATCO discovered potential issues involving payments at TEST. NATCO conducted an internal investigation, and voluntarily disclosed the results to Commission staff. NATCO undertook numerous remedial measures, including employee termination and disciplinary actions. The company also created a revised form document for agent agreements and established new due diligence procedures regarding the vetting and retention of third-party intermediaries; increased staffing in its global compliance department, including the appointment of a full-time Chief Compliance Officer; joined a non-profit association specializing in anti-bribery due diligence that, among other things, screens potential partners and other third parties that work with multinational corporations; improved its FCPA compliance training worldwide, investing heavily in software to assist in enhancing internal controls and compliance; and restructured its internal audit function and enhanced its monitoring and auditing process for the compliance program.

11. In light of the weaknesses uncovered at TEST, the company expanded its investigation to examine TEST's other worldwide operations, including Nigeria, Angola and China, geographic locations with historic FCPA concerns. NATCO's expanded internal investigation of TEST uncovered no wrongdoing.

## **E. Legal Discussion**

12. The FCPA, enacted in 1977, added Exchange Act Section 13(b)(2)(A) to require public companies to make and keep books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer, and added Exchange Act Section 13(b)(2)(B) to require such companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; and (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and to maintain accountability for assets. 15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B).

13. As detailed above, NATCO's books, records, and accounts did not properly reflect TEST's reimbursement of payments to the Kazakhstan immigration prosecutor or the immigration consultant. As a result, NATCO violated Exchange Act Section 13(b)(2)(A).

14. In addition, NATCO failed to devise or maintain sufficient internal controls to ensure that TEST complied with the books and records provisions of the FCPA and to ensure that the payments TEST made were accurately reflected on its books and records. As a result, NATCO violated Exchange Act Section 13(b)(2)(B).<sup>5</sup>

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<sup>5</sup> NATCO also has agreed to pay a \$65,000 civil monetary penalty.

## **NATCO's Remedial Efforts**

In determining to accept the Offer, the Commission considered the remedial efforts undertaken by NATCO and the cooperation afforded the Commission Staff.

### **IV.**

In view of the foregoing, the Commission deems it appropriate to accept the Respondent's Offer.

Accordingly, pursuant to Section 21C of the Exchange Act, it is hereby ORDERED that NATCO cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

By the Commission.

Elizabeth M. Murphy  
Secretary