

UNIVERSAL COMPRESSION HOLDINGS INC
Form DEF 14A
June 14, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

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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
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Universal Compression Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

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

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UNIVERSAL COMPRESSION HOLDINGS, INC.

**4444 Brittmoore Road
Houston, Texas 77041**

June 24, 2004

Dear Stockholder:

We cordially invite you to our Annual Meeting of Stockholders. The meeting will be held on Friday, July 23, 2004, at 9:00 a.m., local time, at the Hilton Houston Westchase & Towers, 9999 Westheimer Road, Houston, Texas 77042.

At this year's meeting, you will be asked to vote on the election of three directors, an amendment to our Incentive Stock Option Plan, an amendment to our Restricted Stock Plan and the ratification of Deloitte & Touche LLP's appointment as our independent auditors.

Our Board of Directors unanimously recommends that you vote FOR the election of the three directors, the amendment to our Incentive Stock Option Plan, the amendment to our Restricted Stock Plan and the ratification of the appointment of the independent auditors.

We have attached a notice of meeting and a Proxy Statement that contain more information about these proposals and the meeting, including the different methods you may use to vote, including telephone and the internet.

If you plan to attend, please mark the appropriate box on your proxy card to help us plan for the meeting.

Your vote is important. We encourage you to sign and return your proxy card, or use the telephone or internet voting procedures, before the meeting, so that your shares will be represented and voted at the meeting even if you cannot attend in person.

STEPHEN A. SNIDER
President and Chief Executive Officer

UNIVERSAL COMPRESSION HOLDINGS, INC.
4444 Brittmoore Road
Houston, Texas 77041

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on July 23, 2004

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Universal Compression Holdings, Inc. will be held at the Hilton Houston Westchase & Towers, 9999 Westheimer Road, Houston, Texas 77042, on Friday, July 23, 2004, at 9:00 a.m., local time. The purposes of the meeting are:

1. To elect three directors to serve until the 2007 Annual Meeting of Stockholders;
2. To consider and approve an amendment to our Incentive Stock Option Plan;
3. To consider and approve an amendment to our Restricted Stock Plan;
4. To ratify the appointment of Deloitte & Touche LLP as our independent auditors to serve for the 2005 fiscal year; and
5. To transact such other business as may properly come before the meeting and at any adjournments or postponements of the meeting.

Our Board of Directors has set June 14, 2004 as the record date for the meeting. This means that owners of our common stock at the close of business on that date are entitled to receive this notice of the meeting and vote at the meeting and any adjournments or postponements of the meeting.

We will make a list of our stockholders as of the close of business on June 14, 2004 available for inspection during normal business hours from July 12 through July 22, 2004, at our principal place of business, 4444 Brittmoore Road, Houston, Texas 77041. This list also will be available at the meeting.

By Order of the Board of Directors,

D. Bradley Childers
Senior Vice President, General Counsel and Secretary

Houston, Texas
June 24, 2004

We urge each stockholder to promptly sign and return the enclosed proxy card or to use the telephone or internet voting procedures described in the accompanying Proxy Statement.

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UNIVERSAL COMPRESSION HOLDINGS, INC.
4444 Brittmoore Road
Houston, Texas 77041

PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS
To Be Held July 23, 2004

These proxy materials are furnished to you in connection with the solicitation of proxies by and on behalf of the Board of Directors of Universal Compression Holdings, Inc. (sometimes referred to as the "Company"), for use at the 2004 Annual Meeting of Stockholders of the Company. The meeting will be held at the Hilton Houston Westchase & Towers, 9999 Westheimer Road, Houston, Texas 77042, on Friday, July 23, 2004, at 9:00 a.m., local time. The proxies also may be voted at any adjournments or postponements of the meeting. We are first sending these proxy materials to our stockholders on or about June 24, 2004.

Only owners of record of issued and outstanding shares of our common stock at the close of business on June 14, 2004 are entitled to vote at the meeting, or at adjournments or postponements of the meeting. Each owner of record is entitled to one vote for each share of common stock held. On June 9, 2004, there were 31,388,197 shares of our common stock issued and outstanding. Each share of common stock issued and outstanding on June 14, 2004 entitles the holder thereof to one vote on all matters submitted for a vote of the stockholders at the meeting. The quorum requirement for holding the meeting and transacting business is met when a majority of the outstanding shares entitled to be voted at the annual meeting are present in person or represented by proxy. Both abstentions and "broker non-votes" are counted as present for the purpose of determining the presence of a quorum.

Whether you hold shares directly as the stockholder of record or in street name, you may vote without attending the meeting. You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your broker or nominee. In most instances, you will be able to do this by mail, by telephone or over the internet. Please refer to the instructions on your proxy card or, for shares held in street name, the voting instruction card included by your broker or nominee. All properly executed written proxies, and all properly completed proxies submitted by telephone or by the internet, that are delivered pursuant to this solicitation will be voted at the meeting in accordance with the directions given in the proxy, unless the proxy is revoked prior to or at the meeting. You can revoke your proxy by giving written notice to our corporate secretary, delivering a later-dated proxy, using the telephone or internet voting procedures described in the enclosed proxy card or voting in person at the meeting.

You should specify your choice for each matter on the enclosed proxy card. If no instructions are given, proxies that are signed and returned will be voted FOR the election of all director nominees, FOR the proposal to amend our Incentive Stock Option Plan, FOR the proposal to amend our Restricted Stock Plan and FOR the proposal to ratify the appointment of Deloitte & Touche LLP as our independent auditors. Broker non-votes do not count as a vote for or against any proposal; however, an abstention counts as a vote against a proposal.

Other than the four proposals described in this Proxy Statement, we do not expect any matters to be presented for a vote at the annual meeting. If you grant a proxy, the persons named as proxy holders on the proxy card will have discretion to vote your shares on any additional matters properly presented for a vote at the meeting. A representative of EquiServe, our transfer agent, will tabulate the votes and act as the inspector of elections. For questions about this Proxy Statement or the meeting, please contact D. Bradley Childers, our Senior Vice President, General Counsel and Secretary, at (713) 335-7000.

**PROPOSAL 1:
ELECTION OF DIRECTORS**

The Company's directors are divided into three classes, with each class serving for a period of three years. The terms of Thomas C. Case, Janet F. Clark and Uriel E. Dutton will expire at the 2004 Annual Meeting. Mr. Case, Ms. Clark and Mr. Dutton have been nominated to stand for election at the meeting to hold office until our 2007 Annual Meeting of Stockholders or until they are succeeded by qualified and elected directors. In voting on the election of the three director nominees to serve until our 2007 Annual Meeting, you may vote in favor of all nominees, withhold votes as to all nominees or withhold votes as to specific nominees. Stockholders may not cumulate their votes in the election of directors. Directors will be elected by a plurality, which means that the three nominees receiving the greatest number of votes will be elected. We have no reason to believe that any of these nominees will be unable or unwilling to serve if elected. However, if any nominee should become unable or unwilling to serve for any reason, proxies may be voted for another person nominated as a substitute by our Board of Directors, or the Board may reduce the number of directors.

Our Board of Directors recommends a vote FOR the election of Thomas C. Case, Janet F. Clark and Uriel E. Dutton as directors.

INFORMATION ABOUT OUR DIRECTORS

Nominees for Election to Term Expiring 2007

Thomas C. Case

Age 55
Houston, Texas

Mr. Case has served on our Board of Directors since 1999. Mr. Case served as Chairman and Chief Executive Officer of Equipment Support Services, Inc. (a consolidator of heavy equipment dealerships in the United States) from September 2001 through 2002 and is currently a member of their Board of Directors. Mr. Case served as the President of Mobil Global Gas & Power, Inc. and was responsible for gas marketing and power development in North and South America from 1998 until December 1999. Mr. Case retired from Mobil on April 1, 2000. From 1996 to 1997, Mr. Case was the Executive Vice President of Duke Energy Trading and Market Services (formerly Pan Energy), a joint venture between Duke Energy and Mobil. From 1991 to 1996, he held various positions with Mobil serving at various times as President and Executive Vice President/Chief Operating Officer of Mobil Natural Gas Inc., Manager of Strategic Planning for Exploration and Production of Mobil and President of Mobil Russia.

Janet F. Clark

Age 49
Houston, Texas

Ms. Clark became a member of our Board of Directors in January 2003. Ms. Clark has served as Senior Vice President and Chief Financial Officer of Marathon Oil Company since January 5, 2004. Prior to joining Marathon Oil, Ms. Clark served as Senior Vice President and Chief Financial Officer of Nuevo Energy Company from December 2001 through December 2003. From 1997 through 2000, Ms. Clark was Executive Vice President, Corporate Development and Administration, and Senior Vice President and Chief Financial Officer for Santa Fe Snyder Corporation and its predecessor, Santa Fe Energy Resources, Inc. Ms. Clark held investment banking positions with First Boston Corporation, Southcoast Capital Corporation and Williams Mackay Jordan & Co., Inc. from 1982 through 1996.

Uriel E. Dutton

Age 73
Houston, Texas

Mr. Dutton became a member of our Board of Directors in February 2001 as a designee of WEUS Holding, Inc., a wholly-owned subsidiary of Weatherford International Ltd., following our acquisition of Weatherford Global Compression Services, L.P. Mr. Dutton has been counsel to and a partner with the law firm of Fulbright & Jaworski L.L.P. for more than the past five years, where his practice focuses on real estate and oil and gas matters. Mr. Dutton also serves as Director and Vice President of M.D. Anderson Foundation (a charitable corporation).

Incumbent Directors Term Expiring 2005

Ernie L. Danner

Age 50
Houston, Texas

Mr. Danner became our Chief Financial Officer and Executive Vice President and a director upon consummation of our acquisition of Tidewater Compression Service, Inc. in 1998. Mr. Danner held the position of Chief Financial Officer until April 1999, after which time he retained the position of Executive Vice President. Mr. Danner became President, Latin America Division, of our wholly-owned subsidiary, Universal Compression, Inc., in November 2002. Prior to joining us, Mr. Danner served as Chief Financial Officer and Senior Vice President of MidCon Corp. (an interstate pipeline company and a wholly-owned subsidiary of Occidental Petroleum Corporation). From 1988 until May 1997, Mr. Danner served as Vice President, Chief Financial Officer and Treasurer of INDSPEC Chemical Company and he also served as a director of INDSPEC. Mr. Danner is also a director of Tide-Air, Inc. (a distributor of Atlas Copco air compressors).

Lisa W. Rodriguez

Age 43
Houston, Texas

Ms. Rodriguez became a member of our Board of Directors in May 2002 as a designee of WEUS Holding, Inc., a wholly-owned subsidiary of Weatherford International Ltd. Ms. Rodriguez became Senior Vice President and Chief Financial Officer of Weatherford International, Inc. and, in connection with the June 26, 2002 restructuring of Weatherford International, of Weatherford International Ltd. in June 2002. She served as Vice President Accounting and Finance of Weatherford International, Inc. from February 2001 to June 2002. Ms. Rodriguez joined Weatherford International, Inc. in 1996 and has served in several positions, including Vice President Accounting from June 2000 to February 2001 and Controller from 1999 to February 2001. Prior to joining Weatherford International, Ms. Rodriguez worked for Landmark Graphics (a software and service provider to the energy industry) from 1993 to 1996.

Stephen A. Snider

Age 56
Houston, Texas

Mr. Snider has been our President and Chief Executive Officer and a director since consummation of our Tidewater Compression Service, Inc. acquisition in 1998. Mr. Snider has over 25 years of experience in senior management of operating companies, and also serves as a director of Energen Corporation (a diversified energy company focusing on natural gas distribution and oil and gas exploration and production) and T-3 Energy Services, Inc. (a provider of a broad range of oilfield

products and services). Mr. Snider also serves on the Board of Directors of the Memorial Hermann Hospital System.

Incumbent Directors Term Expiring 2006

Bernard J. Duroc-Danner

Age 50
Houston, Texas

Mr. Duroc-Danner became a member of our Board of Directors in February 2001 as a designee of WEUS Holding, Inc., a wholly-owned subsidiary of Weatherford International Ltd., following our acquisition of Weatherford Global Compression Services, L.P. Mr. Duroc-Danner joined Weatherford International in May 1987 to initiate the start-up of Weatherford's oilfield service and equipment business through EVI, Inc. He was elected EVI's President in January 1990 and Chief Executive Officer in May 1990. In connection with the merger of EVI, Inc. with Weatherford Enterra, Inc. in May 1998, Mr. Duroc-Danner was elected as Weatherford International, Inc.'s Chairman of the Board, President and Chief Executive Officer. In connection with the June 26, 2002 restructuring of Weatherford International, Mr. Duroc-Danner was elected as Weatherford International Ltd.'s Chairman of the Board, President and Chief Executive Officer. Mr. Duroc-Danner holds a Ph.D. in economics from Wharton (University of Pennsylvania). In prior years, Mr. Duroc-Danner held positions at Arthur D. Little and Mobil Oil Inc. Mr. Duroc-Danner is a director of Parker Drilling Company (an oil and gas drilling company), Cal-Dive International, Inc. (a company engaged in subsea services in the Gulf of Mexico) and Dresser, Inc. (a provider of highly engineered equipment and services primarily for the energy industry).

William M. Pruellage

Age 30
New York, New York

Mr. Pruellage became a member of our Board of Directors in April 2000 as a designee of Castle Harlan Partners III, L.P. Mr. Pruellage is a Managing Director of Castle Harlan, Inc. (a private equity investment company). Prior to joining Castle Harlan in July 1997, Mr. Pruellage worked as an investment banking analyst at Merrill Lynch beginning in July 1995. Mr. Pruellage is also a director of Wilshire Restaurant Group, Inc. (a full service specialty restaurant company) and Advanced Accessory Systems, LLC (a manufacturer of exterior accessories for automobiles).

Samuel Urcis

Age 69
Beverly Hills, California

Mr. Urcis became a member of our Board of Directors in 1998 pursuant to an agreement entered into in connection with our Tidewater Compression Service, Inc. acquisition. Mr. Urcis was a general partner of Alpha Partners (a venture capital firm, which he co-founded) from 1982 to 2002. From 1979 to 1982, and since 1997, Mr. Urcis has been an investor and advisor in the energy field, primarily in the oilfield services and equipment sector. From 1972 to 1979, Mr. Urcis was with Geosource Inc. (a diversified services and equipment company, which he conceptualized and co-founded). Mr. Urcis served in the capacity of Chief Operating Officer and Vice President of Corporate Development. From 1955 to 1972, Mr. Urcis served in various technical and management capacities at Rockwell International, Hughes Aircraft, Aerolab Development Company and Sandberg-Serrell Corporation. Mr. Urcis serves on the Board of Governors and the Audit Committee of the Cedars-Sinai Medical Center, and has previously served as a director of the Glaucoma Research Foundation and as a trustee of the Monterey Institute of International Studies.

**INFORMATION ABOUT OUR CORPORATE GOVERNANCE AND
THE BOARD OF DIRECTORS AND ITS COMMITTEES**

Corporate Governance

Independence. Our Board of Directors has determined that all of our directors are independent directors within the meaning of the rules of the New York Stock Exchange (the "NYSE"), other than Mr. Snider and Mr. Danner, who are members of our management.

As described in "Certain Relationships and Related Transactions" below, Mr. Duroc-Danner, Ms. Rodriguez and Mr. Dutton are nominated to the Board in accordance with our contractual arrangements with Weatherford International Ltd., holder of 13,750,000 million shares, or approximately 44%, of our outstanding common stock. In determining that these directors are independent under the NYSE rules, the Board considered that Mr. Duroc-Danner and Ms. Rodriguez are executive officers of Weatherford, and that Mr. Dutton originally was selected as a nominee to our board by Weatherford, and concluded that none of these relationships is a "material relationship" with our company or one that otherwise impairs their independence from us or our management. In reaching this conclusion, the Board noted that these individuals are designated for nomination to our Board by Weatherford in its capacity as a significant stockholder and that Weatherford's rights arise as a result of agreements relating to its stock ownership, which the Board viewed as consistent with their role as independent directors. The Board further noted that none of these individuals has any relationships in his or her individual capacity with our company or our management. The Board also considered that our company and Weatherford engage in an immaterial amount of commercial transactions with each other in the ordinary course of business, as described in "Certain Relationships and Related Transactions" below, and concluded that these transactions do not impact the independence of Mr. Duroc-Danner, Ms. Rodriguez and Mr. Dutton. Further, the Board considered that the law firm with respect to which Mr. Dutton serves as Of Counsel provides legal services to Weatherford, but not to our company, and concluded that this relationship does not impact Mr. Dutton's independence from our company. Finally, the Board concluded that even though Mr. Duroc-Danner, Ms. Rodriguez and Mr. Dutton are independent directors for purposes of the NYSE rules, and, therefore, may serve on our Compensation Committee and our Nominating and Corporate Governance Committee, they are not eligible to serve on our Audit Committee under the rules of the Securities and Exchange Commission (the "SEC") and the NYSE governing audit committees as a result of their relationships with Weatherford.

Corporate Governance Guidelines. We are committed to adhering to sound principles of corporate governance. A copy of our Corporate Governance Guidelines is available on our website at www.universalcompression.com, by clicking on "Company Information," then "Corporate Governance." We will also provide a copy of our Corporate Governance Guidelines to any of our stockholders without charge upon written request.

Code of Business Conduct and Ethics. We have adopted a Code of Business Conduct and Ethics that applies to our directors, officers and employees. A copy of our Code of Business Conduct and Ethics is available on our website at www.universalcompression.com, by clicking on "Company Information," then "Corporate Governance." We will also provide a copy of our Code of Business Conduct and Ethics to any of our stockholders without charge upon written request.

Executive Sessions of the Board of Directors and Presiding Director. Executive sessions of our non-management directors will be held at least twice each year. Mr. Case has been appointed as the Presiding Director for these sessions.

Communication with Board Members. Stockholders and other interested parties may communicate with the Board of Directors, or any of our individual directors, including the Presiding Director, or the non-management directors as a group, by sending a letter in care of the Company's Corporate Secretary, 4444 Britton Road, Houston, Texas 77041 U.S.A. The Corporate Secretary will open, log and forward

all such correspondence (other than advertisements or other solicitations) to directors unless the director or directors to whom the correspondence is addressed has requested the Corporate Secretary to forward correspondence unopened.

Committees of the Board of Directors

The Board of Directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

Audit Committee. Ms. Clark (Chair), Mr. Case and Mr. Urcis are the current members of the Audit Committee. All members of the Audit Committee are independent as defined by the rules of the NYSE and the SEC. The Board of Directors also has determined that Ms. Clark is an "audit committee financial expert" as defined in the rules and regulations of the SEC. The Board of Directors has adopted a written charter for the Audit Committee. The charter is available on our website at www.universalcompression.com, by clicking on "Company Information," then "Corporate Governance." We will also provide a copy of the charter to any of our stockholders without charge upon written request. The primary functions of the Audit Committee are:

overseeing the integrity of the Company's financial statements;

overseeing the Company's compliance with legal and regulatory requirements;

overseeing the Company's independent auditors qualifications; and

overseeing the performance of the independent auditors and the Company's internal audit function.

Compensation Committee. Mr. Duroc-Danner (Chair), Mr. Pruellage and Ms. Rodriguez are the current members of the Compensation Committee. All members of the Compensation Committee are independent as defined by the rules of the NYSE. The Board of Directors has adopted a written charter for the Compensation Committee, a copy of which is attached to this proxy statement as **Exhibit A**. The charter is also available on our website at www.universalcompression.com, by clicking on "Company Information," then "Corporate Governance." We will also provide a copy of the charter to any of our stockholders without charge upon written request. The primary functions of the Compensation Committee are:

to discharge the Board's responsibilities relating to compensation of the Company's executives; and

to produce an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with the rules and regulations of the SEC.

Nominating and Corporate Governance Committee. Mr. Dutton (Chair), Mr. Case and Ms. Clark are the current members of the Nominating and Corporate Governance Committee. All members of the Nominating and Corporate Governance Committee are independent as defined by the rules of the NYSE. The Board of Directors has adopted a written charter for the Nominating and Corporate Governance Committee, a copy of which is attached to this proxy statement as **Exhibit B**. The charter is also available on our website at www.universalcompression.com, by clicking on "Company Information," then "Corporate Governance." We will also provide a copy of the charter to any of our stockholders without charge upon written request. The primary functions of the Nominating and Corporate Governance Committee are:

to identify and recommend individuals to the Board and its committees; and

to develop and recommend to the Board a set of corporate governance principles applicable to the Company.

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In prior years, the Board of Directors identified candidates to be nominees for director through recommendations from other non-management directors, executive officers, including the Chief Executive Officer, third parties, and stockholders, including stockholders that have had contractual rights to

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nominate candidates. The Nominating and Corporate Governance Committee expects that, if a vacancy on the Board of Directors were to occur, future candidates will be identified through its own inquiries and these sources. Also, it is the policy of the Nominating and Corporate Governance Committee to consider nominees recommended by other stockholders. Subject to the rights of any stockholders under any contract granting stockholders the right to nominate candidates, for a stockholder candidate to be considered, the stockholder is required comply with the procedures set forth in this proxy statement. See "Stockholder Recommendations of Director Nominees" and "Proposals of Stockholders for 2005 Annual Meeting" on page 25. Each of the current nominees for director listed above under the caption "Information About Our Directors Nominees for Election to Term Expiring 2007" is an existing director standing for re-election.

Subject to the rights of Company stockholders under the Company's by-laws or any contracts granting stockholders the right to nominate candidates, the Nominating and Corporate Governance Committee will evaluate candidates recommended by stockholders in the same manner as candidates identified through other sources, including candidates recommended by non-management directors, executive officers and third parties. In deciding if a candidate is qualified to be a nominee, the Nominating and Corporate Governance Committee may take into account such factors as it considers appropriate, including the criteria identified in our Corporate Governance Guidelines, such as the candidate's personal qualities and characteristics, accomplishments and reputation in the business community; the candidate's knowledge and contacts in the communities in which the Company does business and in the Company's industry or other industries relevant to the Company's business; the candidate's ability and willingness to commit adequate time to board and committee matters; the fit of the candidate's skills and personality with those of other directors and potential directors in building a Board or Directors that is effective, collegial and responsive to the needs of the Company; and whether the candidate would contribute to the diversity of viewpoints, background and experience of the Board or Directors.

The Nominating and Corporate Governance Committee believes that directors must be willing and able to devote sufficient time to carry out their duties and responsibilities effectively, including preparing for and participating in board and committee meetings, to serve on the Board of Directors and one or more of its committees for an extended period of time, and to abide by our Corporate Governance Guidelines and Code of Business Conduct and Ethics.

Number of Meetings

In fiscal year 2004, the Board of Directors met six times, the non-management directors met in executive session one time, the Audit Committee met eight times and the Compensation Committee met one time. The Nominating and Corporate Governance Committee was formed in fiscal year 2004 and did not meet. All of the directors attended at least 75% of all Board of Directors and respective committee meetings.

Board Compensation

In fiscal year 2004, directors who were not our officers received an annual director fee of \$24,000 and reimbursement of reasonable out-of-pocket expenses. These directors also received between \$500 and \$1,000 per Board of Directors or Committee meeting attended, except in the case of a Committee Chair, who received \$1,500 per meeting attended. Pursuant to the Company's Directors' Stock Plan, directors may elect to receive all or a portion of their future director fees in the form of our common stock. In addition, directors who are not our officers are eligible to receive stock option awards under our Incentive Stock Option Plan. During fiscal year 2004, Mr. Case, Ms. Clark, Mr. Duroc-Danner, Mr. Dutton, Mr. Pruellage, Ms. Rodriguez and Mr. Urcis were each awarded 7,500 options under the plan, all of which have a one-year vesting schedule.

Director Attendance at Annual Meeting of Stockholders

All directors are expected to attend the Annual Meeting of Stockholders. Eight of our nine directors attended our Annual Meeting of Stockholders for fiscal year 2003, held July 18, 2003.

Compensation Committee Interlocks and Insider Participation

During the last fiscal year, Mr. Duroc-Danner, Mr. Pruellage, and Ms. Rodriguez served as members of our Compensation Committee. Mr. Duroc-Danner is President and Chief Executive Officer, and Ms. Rodriguez is Senior Vice President and Chief Financial Officer, of Weatherford International Ltd. Weatherford International Ltd. owns approximately 44% of our outstanding common stock. See "Certain Relationships and Related Transactions" for a description of certain of our arrangements and transactions with Weatherford International.

Section 16(a) Beneficial Ownership Reporting Compliance

Executive officers, directors and certain persons who own more than ten percent of our common stock are required by Section 16(a) of the Securities Exchange Act of 1934 and related regulations to file reports of their ownership of our common stock with the SEC and the NYSE, and to furnish us with copies of the reports.

We received a written representation from each reporting person who did not file an annual report with the SEC on Form 5 that no Form 5 was due. Based solely on our review of the reports and representations furnished to us by such reporting persons, we believe that all required Section 16(a) reports were timely filed in fiscal 2004, except that a Form 4 disclosing one transaction was filed late by Ernie L. Danner, a Form 4 disclosing one transaction was filed late by Stephen A. Snider, and a Form 4 disclosing two transactions that occurred in the prior fiscal year was filed late by Kirk E. Townsend.

Transactions and Relationships with our Directors and Executive Officers

See " Compensation Committee Interlocks and Insider Participation" and "Certain Relationships and Related Transactions."

EXECUTIVE OFFICERS

The following table sets forth certain information regarding our executive officers as of May 31, 2004:

Name	Age	Position
Stephen A. Snider	56	President, Chief Executive Officer and Director
Ernie L. Danner	50	Executive Vice President and Director
J. Michael Anderson	42	Senior Vice President and Chief Financial Officer
Kirk E. Townsend	46	Senior Vice President
D. Bradley Childers	40	Senior Vice President, General Counsel and Secretary
Richard Leong	54	Vice President

Stephen A. Snider. Mr. Snider's biographical information may be found on page 3 of this Proxy Statement.

Ernie L. Danner. Mr. Danner's biographical information may be found on page 3 of this Proxy Statement.

J. Michael Anderson. Mr. Anderson joined us as Senior Vice President and Chief Financial Officer in March 2003. From 1999 to March 2003, Mr. Anderson held various positions with Azurix Corp., primarily as the company's Chief Financial Officer and, beginning in 2002, as Chairman and Chief Executive Officer. Prior to that time, Mr. Anderson spent ten years in the Global Investment Banking Group of J. P. Morgan Chase & Co.

Kirk E. Townsend. Mr. Townsend is our Senior Vice President, which position he has held since February 2001, and is President, North America Division, of Universal Compression, Inc., our wholly-owned subsidiary. Mr. Townsend is responsible for all business activities of Universal Compression, Inc. within the United States and Canada. Mr. Townsend joined Universal Compression, Inc.'s predecessor company in 1979 as a domestic sales representative. In 1986, he became an international sales representative. Mr. Townsend was promoted to Vice President of Business Development in April 1999, Vice President of Sales in October 1999 and President, U.S. Division in October 2001. He became President, North America Division in November 2003 with the consolidation of our U.S. and Canada operations. Mr. Townsend has over 25 years of sales and management experience in the natural gas compression industry.

D. Bradley Childers. Mr. Childers joined us as Senior Vice President, General Counsel and Secretary in September 2002. Prior to joining us, Mr. Childers held various positions with Occidental Petroleum Corporation and its subsidiaries, including as Vice President, Business Development at Occidental Oil and Gas Corporation from 1999 to August 2002, and as a corporate counsel in the legal department from 1994 to 1999. Prior to that time, Mr. Childers was an associate corporate attorney at Sullivan & Cromwell, in their Los Angeles office, from 1989 to 1994.

Richard Leong. Mr. Leong joined us in December 2001 as our Vice President and as President, Asia Pacific Division, of Universal Compression, Inc. From 1996 until May 2001, Mr. Leong worked with Cooper Energy Services in various managerial and sales positions, serving most recently as Vice President, Sales & Marketing. Mr. Leong has over 30 years of marketing and general management experience in the energy industry.

EXECUTIVE COMPENSATION

The following tables and narrative text discuss the compensation paid in fiscal years 2004, 2003 and 2002 for our Chief Executive Officer and our other four most highly compensated executive officers during fiscal year 2004 (the "Named Officers"):

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation Awards		All Other Compensation (2)
		Salary	Bonus	Restricted Stock(1)	Stock Options (shares)	
Stephen A. Snider President and Chief Executive Officer	2004	\$ 390,000	\$ 550,000	\$ 446,400(3)	35,000(4)	\$ 37,120
	2003	375,000	93,750		35,000	28,720
	2002	265,000	155,356	856,500(5)	250,000	19,230
Ernie L. Danner Executive Vice President	2004	286,000	270,000	357,120(3)	25,000(4)	34,421
	2003	275,000	117,232		25,000	25,099
	2002	205,000	103,013	571,000(5)	95,000	15,869
J. Michael Anderson(6) Sr. Vice President & Chief Financial Officer	2004	260,000	245,000	238,080(3)	20,000(4)	29,719
	2003	1,000		349,000(7)	85,000	
Kirk E. Townsend Senior Vice President	2004	245,000	270,000	238,080(3)	20,000(4)	26,011
	2003	235,000	43,757		20,000	20,940
	2002	180,005	100,000	285,500(5)	90,000	13,660
D. Bradley Childers(8) Sr. Vice President, General Counsel and Secretary	2004	215,000	170,000	238,080(3)	20,000(4)	26,085
	2003	103,846	15,741	188,400(9)	65,000	8,367

(1)

Following is the aggregate number of shares of restricted stock and its value, based on the closing price of our common stock on the NYSE, as of March 31, 2004, held by each of the following Named Officers: Mr. Snider, 15,000 shares valued at \$493,500; Mr. Danner, 10,000 shares valued at \$329,000; Mr. Anderson, 20,000 shares valued at \$658,000; Mr. Townsend, 5,000 shares valued at \$164,500; and Mr. Childers 10,000 shares valued at \$329,000. Including the shares of restricted stock granted on April 30, 2004 as compensation in respect of fiscal year 2004, the aggregate number of shares of restricted stock and its value, based on the closing price of our common stock on the NYSE, as of March 31, 2004, held by each of the following Named Officers would be: Mr. Snider, 30,000 shares valued at \$987,000; Mr. Danner, 22,000 shares valued at \$723,800; Mr. Anderson, 28,000 shares valued at \$921,200; Mr. Townsend, 13,000 shares valued at \$427,700; and Mr. Childers, 18,000 shares valued at \$592,200.

(2)

Represents matching contributions of \$9,971, \$9,779, \$12,000, \$6,081 and \$6,283 made by us in fiscal year 2004 under our 401(k) Savings Plan for each of Messrs. Snider, Danner, Anderson, Townsend and Childers, respectively; payments of \$9,450, \$7,167, \$300, \$2,544 and \$2,481 made by us in fiscal year 2004 under our Employees' Supplemental Savings Plan for each of Messrs. Snider, Danner, Anderson, Townsend and Childers, respectively; health care premiums of \$16,857 made by us in fiscal year 2004 under our Executive Medical and Dental Plan on behalf of each of Messrs. Snider, Danner, Anderson, Townsend and Childers; and life insurance and AD&D premiums of \$842, \$618, \$562, \$529 and \$464 made by us in fiscal year 2004 under our group life insurance and AD&D plans for each of Messrs. Snider, Danner, Anderson, Townsend and Childers, respectively.

(3)

These shares of restricted stock were granted to these Named Officers on April 30, 2004 as compensation in respect of fiscal year 2004 and will vest 25% on April 30, 2006 and 25% on each April 30 thereafter until April 30, 2009. The values set forth in the table are based on \$29.76 per share, the closing price of our common stock on the NYSE on April 30, 2004.

(4)

These stock options were granted to these Named Officers on April 30, 2004 as compensation in respect of fiscal year 2004.

(5)

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These shares of restricted stock were granted to these Named Officers on August 16, 2001 and vested 25% on January 1, 2003 and 25% on January 1, 2004, and will vest 25% on each January 1 thereafter until January 1, 2006. The values set forth in the table are based on \$28.55 per share, the closing price of our common stock on the NYSE on August 16, 2001.

(6) Mr. Anderson joined us in March 2003.

(7) These shares of restricted stock were granted to Mr. Anderson on March 31, 2003 and will vest 25% on March 31, 2005 and 25% on each March 31 thereafter until March 31, 2008. The value set forth in the table is based on \$17.45 per share, the closing price of our common stock on the NYSE on March 31, 2003.

(8) Mr. Childers joined us in September 2002.

(9) These shares of restricted stock were granted to Mr. Childers on September 3, 2002 and will vest 25% on September 3, 2004 and 25% on each September 3 thereafter until September 3, 2007. The value set forth in the table is based on \$18.84 per share, the closing price of our common stock on the NYSE on September 3, 2002.

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted(#)(2)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price appreciation for Option Term(1)	
					5%	10%
					Stephen A. Snider	35,000
Ernie L. Danner	25,000	5.97	30.07	4/30/2014	472,771	1,198,095
J. Michael Anderson	20,000	4.77	30.07	4/30/2014	378,217	958,476
Kirk E. Townsend	20,000	4.77	30.07	4/30/2014	378,217	958,476
D. Bradley Childers	20,000	4.77	30.07	4/30/2014	378,217	958,476

(1) The calculations at five percent and ten percent appreciation rates are established by the SEC and are not intended to forecast future appreciation rates for our common stock.

(2) These stock options were granted to these Named Officers on April 30, 2004 as compensation in respect of fiscal year 2004.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised in-the-Money Options at Fiscal Year-End	
			Exercisable	Unexercisable	Exercisable(1)	Unexercisable
Stephen A. Snider	3,000	\$ 48,510	408,818	108,334	\$ 2,399,312	\$ 750,242
Ernie L. Danner			214,881	66,667	1,685,737	441,921
J. Michael Anderson			28,333	76,667	361,812	723,638
Kirk E. Townsend	4,000	60,746	139,660	58,334	857,584	397,392
D. Bradley Childers			21,666	63,334	258,525	517,075

(1)

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Adjusted to include the stock options granted to the Named Officers on April 30, 2004 as compensation in respect of fiscal year 2004.

PERFORMANCE GRAPH

The following graph compares the performance of our common stock to the Standard & Poor's 500 Stock Index and Standard & Poor's 500 Energy Equipment & Services Index from May 24, 2000, the first day of trading for our common stock, to March 31, 2004. The graph assumes that the value of the investment in our common stock, the S&P 500 Stock Index and the S&P 500 Energy Equipment & Services Index was \$100 at May 24, 2000 and that all dividends were reinvested quarterly.

**COMPARISON OF CUMULATIVE TOTAL RETURN
BASED ON INITIAL INVESTMENT OF \$100 ON MAY 24, 2000**

The performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those Acts.

REPORT OF THE COMPENSATION COMMITTEE

Compensation Policy

The goal of our compensation policy is to offer a cash and stock-based compensation package that attracts and retains executive officers and that aligns executive compensation with the interests of our stockholders. Our philosophy is to provide total compensation, consisting of a base salary and short and long term incentives, that is competitive with companies of similar size in the oilfield services sector, and includes annual bonus compensation potential that is based on a combination of corporate and individual performance. The Compensation Committee of the Board of Directors reviews our executive compensation programs annually to ensure these programs are competitive and reasonable.

Compensation Policy Components

Base Salary. Base salaries are competitive with those offered by companies of similar size in the oilfield services sector. Individual salaries, which are reviewed annually, are based on individual skills and performance and market comparisons.

Incentive Bonus. The Compensation Committee has adopted an Officers' Incentive Plan each year to provide each executive officer with the potential to earn a cash bonus expressed as a percentage of salary. The amount of each bonus paid to executive officers in fiscal year 2004 was determined by the Compensation Committee and based on the Fiscal Year 2004 Officers' Incentive Plan.

The Fiscal Year 2004 Officers' Incentive Plan provided for bonus payments based upon the attainment of Company financial and operating goals, as well as individual performance. Under the plan, an executive officer's bonus amount was first calculated based on an objective analysis of our financial and safety performance, with 90% of this amount based on financial performance and 10% based on safety performance. An individual performance multiplier was then applied to the calculation determined on the basis of financial and safety performance. The purpose of the multiplier was to provide differentiation for the officer's individual performance. The multiplier can range from 0 to 1.25 times a calculated award. The Compensation Committee has the discretion to award bonuses in excess of the targeted amount in the event the goals are exceeded.

Stock Option Grants. The use of stock options is considered to be an important incentive to our executive officers for working toward our long-term growth. We believe that stock options provide our executive officers with a benefit that will increase only to the extent that the value of the common stock increases. The number of options granted is based on the contribution of the executive officer, and the options granted are subject to vesting over a three year period and have exercise prices equal to the market value of our stock on the date of the grant. In respect of fiscal year 2004, our executive officers received grants representing 135,000 shares of common stock.

Restricted Stock Grants. We also utilize grants of restricted stock as long-term compensation for our executive officers. The Compensation Committee can exercise its discretion in determining the vesting schedule for restricted stock. In respect of fiscal year 2004, 57,000 shares of restricted stock were granted to six of our executive officers. Generally, common stock subject to the restricted stock grants vests 0% upon the first anniversary of the grant and 25% on each anniversary thereafter through the fifth anniversary.

Other Compensation Programs. Our 401(k) savings plan provides employees, including executive officers, the opportunity to defer up to 25% of their salary on a pre-tax basis through contributions to an account from which the employee may direct how the funds are invested. We match, with Company common stock, 50% of the first six percent of such employee contributions, with a maximum match of three percent of the employee's compensation. Employees vest in the Company's contribution over five years, based on length of employment. The common stock contributed by the Company to an employee's

matching contribution account cannot be sold except upon certain events, such as termination of employment or death. Company stock is not an investment option for employees.

Our Employees' Supplemental Savings Plan provides certain senior employees, including executive officers, the opportunity to defer up to 25% of their salary. In addition, participants can defer up to 100% of their bonuses. The Company matches 50% of the first six percent of compensation, excluding any bonus deferred. Prior to September 1, 2002, our matching contributions were in the form of cash. Since September 1, 2002, our matching contributions have been in the form of our common stock, which cannot be sold except upon certain events, such as termination of employment or death.

Fiscal Year 2004 Compensation for the President and Chief Executive Officer

In fiscal year 2004, Mr. Snider received a base salary of \$390,000. His targeted bonus potential was 100% of this base salary and the Compensation Committee awarded him \$550,000, or 141% of the targeted amount of \$390,000. Mr. Snider was granted options representing 35,000 shares of common stock and was granted 15,000 shares of restricted stock. In addition, the Company made matching contributions of 392 shares of common stock to Mr. Snider's 401(k) account and 429 shares of common stock to his account under the Supplemental Savings Plan.

Mr. Snider's compensation is determined using substantially the same criteria utilized to determine compensation for our other executive officers, as described earlier in this report. Mr. Snider's 2004 bonus amount was in recognition of the Company's performance in fiscal year 2004 and Mr. Snider's contributions to that performance. The increase in Mr. Snider's total compensation was intended to make his compensation more competitive with those of similarly situated officers in comparable companies in the oilfield services sector and to recognize his efforts to grow the Company's business and increase stockholder value. The number of stock options and shares of restricted stock granted to Mr. Snider were determined to be appropriate in recognition of Mr. Snider's achievements in increasing the value of the Company's common stock to date and to provide an incentive to increase the value of the Company's common stock in the future.

Compensation Deductions Limitations

Section 162(m) of the Internal Revenue Code, as amended, limits the deductibility of certain compensation expenses in excess of \$1,000,000 to any one individual in any fiscal year. Compensation that is "performance based" is excluded from this limitation. For compensation to be "performance based," it must meet certain criteria including certain predetermined objective standards approved by stockholders. We believe that maintaining the discretion to evaluate the performance of our management is an important part of our responsibilities and benefits the Company's stockholders. We intend to take into account the potential application of Section 162(m) on incentive compensation awards and other compensation decisions.

Summary

In making decisions regarding executive compensation, the Committee compares current compensation levels with those of other companies within the oilfield services sector that compare favorably to our company with regard to market capitalization and other financial indicators by which we have historically measured the Company's performance. The Committee uses its discretion to determine a total compensation package of base salary, short-term and long-term incentives that are competitive with this group of peer companies.

Compensation Committee
Bernard J. Duroc-Danner, *Chair*
Lisa W. Rodriguez
William M. Pruellage

The foregoing report shall not be deemed incorporated by reference by any general statement or reference to this Proxy Statement into any filing under the Securities Act or under the Securities Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those Acts.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of June 9, 2004, the beneficial ownership of our common stock by: persons we know to be the beneficial owners of more than five percent of our issued and outstanding common stock; our directors; our Named Officers; and all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. Except as indicated in the footnotes to this table, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite the stockholder's name. Except as otherwise set forth below, shares of common stock not outstanding but deemed beneficially owned by virtue of a person or group having the right to acquire them within 60 days, including outstanding stock options, are treated as outstanding only for purposes of determining the percentage owned by such person or group, but are not treated as outstanding for the purpose of computing the percentage ownership by any other person. The address for each executive officer and director listed below is c/o Universal Compression Holdings, Inc., 4444 Britton Road, Houston, Texas 77041.

Name and Address of Beneficial Owner	Aggregate Number of Shares Beneficially Owned	Percentage of Outstanding Shares(1)
Weatherford International Ltd.(2) c/o Weatherford International, Inc. 515 Post Oak Boulevard, Suite 600 Houston, Texas 77027-3415	13,750,000	43.8%
Thomas C. Case(3)	25,334	*
Janet F. Clark(4)	10,000	*
Samuel Urcis(5)	225,080	*
William M. Pruellage(3)	26,308	*
Bernard J. Duroc-Danner(6)(7)	16,897	*
Lisa W. Rodriguez(7)(8)	17,500	*
Uriel E. Dutton(3)	25,000	*
Stephen A. Snider(9)	499,016	1.6
Ernie L. Danner(10)	298,948	*
Kirk E. Townsend(11)	164,423	*
J. Michael Anderson(12)	57,825	*
D. Bradley Childers(13)	40,366	*
All directors and executive officers as a group (13 persons)(14)	1,461,198	4.5%

*

Less than 1% of our issued and outstanding shares of common stock.

- (1) Based upon 31,388,197 shares of common stock outstanding and 1,051 treasury shares issued that are not counted as outstanding in calculating the beneficial ownership percentage.
- (2) This information is based upon information furnished to us and on statements on file with the SEC.
- (3) Includes 25,000 shares of common stock subject to options, all of which are fully vested.
- (4) Includes 10,000 shares of common stock subject to options, all of which are fully vested.
- (5) Includes 125,000 shares of common stock subject to options, all of which are fully vested.
- (6) Includes 16,897 shares of common stock subject to options, all of which are fully vested.
- (7)

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This director is an officer of Weatherford International Ltd., and due to this position may be deemed to exercise control over Weatherford International Ltd. and as such may be deemed to be a beneficial owner of the shares held by Weatherford International Ltd. This director disclaims beneficial

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ownership of these shares. This information is based upon information provided to us and in statements on file with the SEC.

- (8) Includes 17,500 shares of common stock subject to options, all of which are fully vested.
- (9) Includes 408,818 shares of common stock subject to options, all of which are fully vested.
- (10) Includes 214,881 shares of common stock subject to options, all of which are fully vested.
- (11) Includes 139,660 shares of common stock subject to options, all of which are fully vested.
- (12) Includes 28,333 shares of common stock subject to options, all of which are fully vested.
- (13) Includes 21,666 shares of common stock subject to options, all of which are fully vested.
- (14) Includes an aggregate of 1,092,754 shares of common stock subject to options, all of which are fully vested. Also includes 54,501 shares of common stock owned by another executive officer not listed in the above table, of which 34,999 are shares of common stock subject to options, all of which are fully vested.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Arrangements and Transactions with Weatherford International

Registration Rights Agreement. Concurrently with our acquisition of Weatherford Global Compression Services, L.P. in February 2001, we entered into a registration rights agreement with WEUS Holding, Inc., a wholly owned subsidiary of Weatherford International, Inc. In connection with the June 2002 restructuring of Weatherford International, Inc., WEUS Holding's rights under the registration rights agreement were transferred to Weatherford International Ltd. In connection with the exercise by Weatherford of one of its demand registrations, in March 2004, the registration rights agreement was amended and restated. Under the agreement, Weatherford International Ltd. has the right, on up to three occasions, to cause us to register at our expense Weatherford International Ltd.'s shares of our common stock under the Securities Act at any time by providing a written demand to us, subject to certain minimum dollar values. The registration rights agreement also provides Weatherford International Ltd. with certain "piggyback" registration rights, or rights to require us, subject to certain limitations, to include its shares of our common stock in certain other registration statements that we may file. In February 2004, Weatherford provided written demand to the Company to register 7,000,000 of Weatherford's shares of our common stock. The Company filed a registration statement with the SEC in respect of these shares on April 1, 2004.

Board Representation. In connection with our acquisition of Weatherford Global, WEUS Holding was granted the right to designate three members to our Board of Directors for so long as it owns at least 20% of our outstanding common stock. One WEUS Holding nominee is a Class A director with a term of office expiring in 2004, the second WEUS Holding nominee is a Class B director with a term of office expiring in 2005, and the third WEUS Holding nominee is a Class C director with a term of office expiring in 2006. In connection with the June 26, 2002 restructuring of Weatherford International, Inc., WEUS Holding's right to designate members to our Board of Directors was transferred to Weatherford International Ltd. If Weatherford International Ltd.'s ownership of our common stock falls below 20%, Weatherford International Ltd. may designate only two directors, and if its ownership falls below 10%, it may no longer designate directors to our Board. Weatherford International Ltd.'s current designees to our Board of Directors, including through WEUS Holding's previous designations, are Mr. Dutton (Class A), Ms. Rodriguez (Class B) and Mr. Duroc-Danner (Class C). Mr. Dutton is serving a term that expires at our 2004 Annual Meeting of Stockholders. Our Board has recommended that Mr. Dutton stand for reelection as a director for the term expiring 2007.

Other Transactions. During fiscal year 2004, Weatherford International Ltd. or its affiliates purchased services, equipment and parts from us in the ordinary course of business for approximately \$222,000.

Registration Rights Agreement

In connection with our acquisition of Tidewater Compression in 1998, we entered into a registration rights agreement with Castle Harlan Partners III, L.P. and some of our other stockholders (including certain of our directors and officers). Under the registration rights agreement, these stockholders generally have the right to require us to register any or all of their shares of our common stock under the Securities Act, at our expense, subject to certain minimum dollar values. In addition, these stockholders are generally entitled to include, at our expense, their shares of our common stock covered by the registration rights agreement in any registration statement that we propose to file with respect to registration of our common stock under the Securities Act. We also agreed in this registration rights agreement to indemnify the stockholders against specified liabilities, including liabilities under the Securities Act.

Transactions with Tide-Air

In January 2000, we sold our standard products division, the primary business of which was the sale of air compressors, to Tide-Air, Inc. Tide-Air is owned by a group of investors that includes Mr. Danner, who owns 45% of Tide-Air's common stock. During fiscal year 2004, we purchased equipment from Tide Air in the ordinary course of business for approximately \$71,000.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

The Company has elected, as a policy matter, not to offer employment agreements to its executive officers. During fiscal year 2004, only one of our Named Officers, Mr. Richard Leong, had a termination of employment agreement with the Company. This termination agreement provides that Mr. Leong will receive one year of base salary as in effect at the time of termination and one year of medical benefits if he is involuntarily terminated by the Company without cause at any time during the three-year period that began December 1, 2001.

Certain of our executive officers are offered change of control agreements pursuant to which the executive officers may receive certain payments, including a lump sum payment of two years' compensation and continuation of our employee benefits for two years, in the event of ter