

CRANE CO /DE/
Form 8-K
July 28, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): July 27, 2009

CRANE CO.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation)

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1-1657
(Commission File Number)

13-1952290
(IRS Employer Identification No.)

100 First Stamford Place, Stamford, CT
(Address of principal executive offices)

06902
(Zip Code)

Registrant's telephone number, including area code: (203) 363-7300

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

SECTION 2 FINANCIAL INFORMATION**Item 2.02 Results of Operations and Financial Condition.**

On July 27, 2009, Crane Co. announced its results of operations for the quarter ended June 30, 2009. Copies of the related press release and quarterly financial data supplement are being furnished as Exhibits 99.1 and 99.2 to this Form 8-K.

The information furnished under Item 2.02 of this Current Report on Form 8-K, including Exhibits 99.1 and 99.2, is not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SECTION 8 OTHER EVENTS**Item 8.01 Other Events**Asbestos LiabilityInformation Regarding Claims and Costs in the Tort System

As of June 30, 2009, the Company was a defendant in cases filed in various state and federal courts alleging injury or death as a result of exposure to asbestos. Activity related to asbestos claims during the periods indicated was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,
	2009	2008	2009	2008	2008
Beginning claims	75,266	81,103	74,872	80,999	80,999
New claims	1,356	1,608	2,203	2,649	4,671
Settlements*	(379)	(303)	(544)	(640)	(1,236)
Dismissals	(4,823)	(429)	(5,111)	(1,029)	(9,562)
Ending claims **	71,420	81,979	71,420	81,979	74,872

* Includes *Joseph Norris* judgment.

** Does not include 36,447 maritime actions that were filed in the United States District Court for the Northern District of Ohio and transferred to the Eastern District of Pennsylvania pursuant to an order by the Federal Judicial Panel on Multi-District Litigation (MDL).

These claims have been placed on the inactive docket of cases that are administratively dismissed without prejudice in the MDL. Of the 71,420 pending claims as of June 30, 2009, approximately 25,000 claims were pending in New York, approximately 15,300 claims were pending in Mississippi, approximately 9,800 claims were pending in Texas and approximately 2,000 claims were pending in Ohio, all jurisdictions in which legislation or judicial orders restrict the types of claims that can proceed to trial on the merits.

Substantially all of the claims the Company resolves are either dismissed or concluded through settlements. To date, the Company has paid two judgments arising from adverse jury verdicts in an asbestos matter. The first payment, in the amount of \$2.54 million, was made on July 14, 2008, approximately two years after the adverse verdict, in the *Joseph Norris* matter in California, after the Company had exhausted all post-trial and appellate remedies. The second payment in the amount of \$0.02 million, was made in June 2009 after an adverse verdict in the *Earl Haupt* case in Los Angeles, California on April 21, 2009. Such judgment amounts are not included in the Company's incurred costs until available appeals are exhausted and the final payment amount is determined.

During the fourth quarter of 2007 and the first quarter of 2008, the Company tried several cases resulting in defense verdicts by the jury or directed verdicts for the defense by the court. However, on March 14, 2008, the Company received

an adverse verdict in the *James Baccus* claim in Philadelphia, Pennsylvania, with compensatory damages of \$2.45 million and additional damages of \$11.9 million. The Company's post-trial motions were denied by order dated January 5, 2009. The Company intends to pursue all available rights to appeal the verdict.

On May 16, 2008, the Company received an adverse verdict in the *Chief Brewer* claim in Los Angeles, California. The amount of the judgment entered was \$0.68 million plus interest and costs. The Company is pursuing an appeal in this matter.

On February 2, 2009, the Company received an adverse verdict in the *Dennis Woodard* claim in Los Angeles, California. The jury found that the Company was responsible for one-half of one percent (0.5%) of plaintiffs' damages of \$16.925 million; however, based on California court rules regarding allocation and damages, judgment was entered against the Company in the amount of \$1.65 million, plus costs. Following entry of judgment, the Company filed a motion with the trial court requesting judgment in the Company's favor notwithstanding the jury's verdict, and on June 30, 2009 the court advised that the Company's motion was granted and judgment was entered in favor of the Company. The court has not yet entered a written judgment on its decision.

The gross settlement and defense costs incurred (before insurance recoveries and tax effects) for the Company in the six-month periods ended June 30, 2009 and 2008 totaled \$59.3 million and \$43.4 million, respectively. In contrast to the recognition of settlement and defense costs that reflect the current level of activity in the tort system, cash payments and receipts generally lag the tort system activity by several months or more, and may show some fluctuation from quarter to quarter. Cash payments of settlement amounts are not made until all releases and other required documentation are received by the Company, and reimbursements of both settlement amounts and defense costs by insurers may be uneven due to insurer payment practices, transitions from one insurance layer to the next excess layer and the payment terms of certain reimbursement agreements. The Company's total pre-tax payments for settlement and defense costs, net of funds received from insurers, in the six-month periods ended June 30, 2009 and 2008 totaled a \$12.5 million net payment, (reflecting the receipt of \$14.5 million for full policy buyout from Highlands Insurance Company (Highlands)) and a \$16.6 million net payment, respectively. Detailed below are the comparable amounts for the periods indicated.

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31, 2008	Cumulative to Date Through March 31, 2009
	2009	2008	2009	2008		
Settlement / indemnity costs incurred (1)	\$ 23.2	\$ 7.4	\$ 32.1	\$ 17.8	\$ 45.2	\$ 201.4
Defense costs incurred (1)	13.8	13.5	27.2	25.6	51.9	241.5
Total costs incurred	\$ 37.0	\$ 20.9	\$ 59.3	\$ 43.4	\$ 97.1	\$ 442.9
Pre-tax cash payments (2)	\$ 15.2	\$ 14.6	\$ 12.5	\$ 16.6	\$ 58.1	\$ 206.5

(1) Before insurance recoveries and tax effects.

(2) Net of payment received from insurers. The six months ended June 30, 2009 includes a \$14.5 million payment from Highlands in January 2009. There were no comparable policy settlements in the 2008 period.

The amounts shown for settlement and defense costs incurred, and cash payments, are not necessarily indicative of future period amounts, which may be higher or lower than those reported.

Through June 30, 2009, the Company has resolved (by settlement or dismissal) approximately 56,000 claims. The related settlement cost incurred by the Company and its insurance carriers is approximately \$201 million, for an average cost per resolved claim of \$3,614. The average cost per claim resolved during the years ended December 31, 2008 and 2007 was \$4,186 and \$4,977, respectively. Because claims are sometimes dismissed in large groups, the average cost per resolved claim, as well as the number of open claims, can fluctuate significantly from period to period.

Effects on the Condensed Consolidated Financial Statements

The Company has retained the firm of Hamilton, Rabinovitz & Associates, Inc. (HR&A), a nationally recognized expert in the field, to assist management in estimating the Company's asbestos liability in the tort system. HR&A reviews information provided by the Company concerning claims filed, settled and dismissed, amounts paid in settlements and relevant claim information such as the nature of the asbestos-related disease asserted by the claimant, the jurisdiction where filed and the time lag from filing to disposition of the claim. The methodology used by HR&A to project future asbestos costs is based largely on the Company's experience during a base reference period consisting of the two full preceding calendar years (and additional quarterly periods to the estimate date) for claims filed, settled and dismissed. The Company's experience is then compared to the results of previously conducted epidemiological studies estimating the number of individuals likely to develop asbestos-related diseases. Those studies were undertaken in connection with national analyses of the population of workers believed to have been exposed to asbestos. Using that information, HR&A estimates the number of future claims that would be filed against the Company and estimates the aggregate settlement or indemnity costs that would be incurred to resolve both pending and future claims based upon the average settlement costs by disease during the reference period. This methodology has been accepted by numerous courts. After discussions with the Company, HR&A augments its liability estimate for the costs of defending asbestos claims in the tort system using a forecast from the Company which is based upon discussions with its defense counsel. Based on this information, HR&A compiles an estimate of the Company's asbestos liability for pending and future claims, based on claim experience over the past two to three years and covering claims expected to be filed through the indicated period. The most significant factors affecting the liability estimate are (1) the number of new mesothelioma claims filed against the Company, (2) the average settlement costs for mesothelioma claims, (3) the percentage of mesothelioma claims dismissed against the Company and (4) the aggregate defense costs incurred by the Company. These factors are interdependent, and no one factor predominates in determining the liability estimate. Although the methodology used by HR&A will also show claims and costs for periods subsequent to the indicated period (up to and including the endpoint of the asbestos studies referred to above), management believes that the level of uncertainty regarding the various factors used in estimating future asbestos costs is too great to provide for reasonable estimation of the number of future claims, the nature of such claims or the cost to resolve them for years beyond the indicated estimate.

In the Company's view, the forecast period used to provide the best estimate for asbestos claims and related liabilities and costs is a judgment based upon a number of trend factors, including the number and type of claims being filed each year, the jurisdictions where such claims are filed and the effect of any legislation or judicial orders in such jurisdictions restricting the types of claims that can proceed to trial on the merits and the likelihood of any comprehensive asbestos legislation at the federal level. In addition, the dynamics of asbestos litigation in the tort system have been significantly affected over the past five to ten years by the substantial number of companies that have filed for bankruptcy protection, thereby staying any asbestos claims against them until the conclusion of such proceedings, and the establishment of a number of post-bankruptcy trusts for asbestos claimants, which are estimated to provide \$25 billion for payments to current and future claimants. These trend factors have both positive and negative effects on the dynamics of asbestos litigation in the tort system and the related best estimate of the Company's asbestos liability, and these effects do not move in a linear fashion but rather change over multi-year periods. Accordingly, the Company's management monitors these trend factors over time and periodically assesses whether an alternative forecast period is appropriate.

Liability Estimate. With the assistance of HR&A, effective as of September 30, 2007, the Company updated and extended its estimate of the asbestos liability, including the costs of settlement or indemnity payments and defense costs relating to currently pending claims and future claims projected to be filed against the Company through 2017. The Company's previous estimate was for asbestos claims filed through 2011. As a result of this updated estimate, the Company recorded an additional liability of \$586 million as of September 30, 2007. The Company's decision to take this action at such date was based on several factors. First, the number of asbestos claims being filed against the Company has moderated substantially over the past several years, and in the Company's opinion, the outlook for asbestos claims expected to be filed and resolved in the forecast period is reasonably stable. Second, these claim trends are particularly true for mesothelioma claims, which although constituting only 5% of the Company's total pending asbestos claims, have

accounted for approximately 90% of the Company's aggregate settlement and defense costs over the past five years. Third, federal legislation that would significantly change the nature of asbestos litigation failed to pass in 2006, and in the Company's opinion, the prospects for such legislation at the federal level are remote. Fourth, there have been significant actions taken by certain state legislatures and courts over the past several years that have reduced the number and types of claims that can proceed to trial, which has been a significant factor in stabilizing the asbestos claim activity. Fifth, the Company has now entered into coverage-in-place agreements with a majority of its excess insurers, which enables the Company to project a more stable relationship between settlement and defense costs paid by the Company and reimbursements from its insurers. Taking all of these factors into account, the Company believes that it can reasonably estimate the asbestos liability for pending claims and future claims to be filed through 2017. While it is probable that the Company will incur additional charges for asbestos liabilities and defense costs in excess of the amounts currently provided, the Company does not believe that any such amount can be reasonably estimated beyond 2017. Accordingly, no accrual has been recorded for any costs which may be incurred for claims made subsequent to 2017.

Management has made its best estimate of the costs through 2017 based on the analysis by HR&A completed in October 2007. Each quarter, HR&A compiles an update based upon the Company's experience in claims filed, settled and dismissed during the updated reference period as well as average settlement costs by disease category (mesothelioma, lung cancer, other cancer, asbestosis and other non-malignant conditions) during that period. Management discusses these trends and their effect on the liability estimate with HR&A and determines whether a change in the estimate is warranted. As part of this process the Company also takes into account trends in the tort system such as those enumerated above. As of June 30, 2009, the Company's actual experience during the updated reference period for mesothelioma claims filed and dismissed approximated the assumptions in the Company's liability estimate, while the average settlement costs for mesothelioma claims were somewhat higher, but generally consistent with the prior two quarters. In addition to this claims experience, the Company considered additional qualitative factors such as the nature of the aging of pending claims, significant appellate rulings and legislative developments, and their respective effects on expected future settlement values. Based on this evaluation, the Company determined that no change in the estimate was warranted for the period ended June 30, 2009. A liability of \$1,055 million was recorded as of September 30, 2007 to cover the estimated cost of asbestos claims now pending or subsequently asserted through 2017. The liability is reduced when cash payments are made in respect of settled claims and defense costs. The liability was \$882 million as of June 30, 2009, approximately 68% of which is attributable to settlement and defense costs for future claims projected to be filed through 2017. It is not possible to forecast when cash payments related to the asbestos liability will be fully expended; however, it is expected such cash payments will continue for a number of years past 2017, due to the significant proportion of future claims included in the estimated asbestos liability and the lag time between the date a claim is filed and when it is resolved. None of these estimated costs have been discounted to present value due to the inability to reliably forecast the timing of payments. The current portion of the total estimated liability at June 30, 2009 was \$91 million and represents the Company's best estimate of total asbestos costs expected to be paid during the twelve-month period. Such amount is based upon the HR&A model together with the Company's prior year payment experience for both settlement and defense costs.

Insurance Coverage and Receivables. Prior to 2005, a significant portion of the Company's settlement and defense costs were paid by its primary insurers. With the exhaustion of that primary coverage, the Company began negotiations with its excess insurers to reimburse the Company for a portion of its settlement and defense costs as incurred. To date, the Company has entered into agreements providing for such reimbursements, known as "coverage-in-place", with ten of its excess insurer groups. Under such coverage-in-place agreements, an insurer's policies remain in force and the insurer undertakes to provide coverage for the Company's present and future asbestos claims on specified terms and conditions that address, among other things, the share of asbestos claims costs to be paid by the insurer, payment terms, claims handling procedures and the expiration of the insurer's obligations. The most recent such agreement became effective April 21, 2009, between the Company and Employers Mutual Casualty Company, by and through its managing general agent and attorney-in-fact Mutual Marine Office, Inc. On March 3, 2008, the Company reached agreement with certain London Market Insurance Companies, North River Insurance Company and TIG Insurance Company, confirming the aggregate amount of available coverage under certain London policies and setting forth a schedule for future reimbursement payments to the Company based on aggregate indemnity and defense payments made. In addition, with

four of its excess insurer groups, the Company entered into policy buyout agreements, settling all asbestos and other coverage obligations for an agreed sum, totaling \$61.3 million in aggregate. The most recent of these buyouts was reached in October 2008 with Highlands Insurance Company, which currently is in receivership in the State of Texas. The settlement agreement with Highlands was formally approved by the Texas receivership court on December 8, 2008, and Highlands paid the full settlement amount, \$14.5 million, to the Company on January 12, 2009. Reimbursements from such insurers for past and ongoing settlement and defense costs allocable to their policies have been made as coverage-in-place and other agreements are reached with such insurers. All of these agreements include provisions for mutual releases, indemnification of the insurer and, for coverage-in-place, claims handling procedures. The Company is in discussions with or expects to enter into additional coverage-in-place or other agreements with other of its solvent excess insurers not currently subject to a settlement agreement whose policies are expected to respond to the aggregate costs included in the updated liability estimate. If it is not successful in concluding such coverage-in-place or other agreements with such insurers, then the Company anticipates that it would pursue litigation to enforce its rights under such insurers' policies. There are no pending legal proceedings between the Company and any insurer contesting the Company's asbestos claims under its insurance policies.

In conjunction with developing the aggregate liability estimate referenced above, the Company also developed an estimate of probable insurance recoveries for its asbestos liabilities. In developing this estimate, the Company considered its coverage-in-place and other settlement agreements described above, as well as a number of additional factors. These additional factors include the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, how settlement and defense costs will be covered by the insurance policies and interpretation of the effect on coverage of various policy terms and limits and their interrelationships. In addition, the timing and amount of reimbursements will vary because the Company's insurance coverage for asbestos claims involves multiple insurers, with different policy terms and certain gaps in coverage. In addition to consulting with legal counsel on these insurance matters, the Company retained insurance consultants to assist management in the estimation of probable insurance recoveries based upon the aggregate liability estimate described above and assuming the continued viability of all solvent insurance carriers. Based upon the analysis of policy terms and other factors noted above by the Company's legal counsel, and incorporating risk mitigation judgments by the Company where policy terms or other factors were not certain, the Company's insurance consultants compiled a model indicating how the Company's historical insurance policies would respond to varying levels of asbestos settlement and defense costs and the allocation of such costs between such insurers and the Company. Using the estimated liability as of September 30, 2007, the insurance consultant's model forecasted that approximately 33% of the liability would be reimbursed by the Company's insurers. An asset of \$351 million was recorded as of September 30, 2007 representing the probable insurance reimbursement for such claims. The asset is reduced as reimbursements and other payments from insurers are received. The asset was \$266 million as of June 30, 2009.

The Company reviews the aforementioned estimated reimbursement rate with its insurance consultants on a periodic basis in order to confirm its overall consistency with the Company's established reserves. Since September 2007, there have been no developments that have caused the Company to change the estimated 33% rate, although actual insurance reimbursements vary from period to period for the reasons cited above. While there are overall limits on the aggregate amount of insurance available to the Company with respect to asbestos claims, those overall limits were not reached by the total estimated liability currently recorded by the Company, and such overall limits did not influence the Company in its determination of the asset amount to record. The proportion of the asbestos liability that is allocated to certain insurance coverage years, however, exceeds the limits of available insurance in those years. The Company allocates to itself the amount of the asbestos liability that is in excess of available insurance coverage allocated to such years.

Uncertainties. Estimation of the Company's ultimate exposure for asbestos-related claims is subject to significant uncertainties, as there are multiple variables that can affect the timing, severity and quantity of claims. The Company cautions that its estimated liability is based on assumptions with respect to future claims, settlement and defense costs based on recent experience during the last few years that may not prove reliable as predictors. A significant upward or downward trend in the number of claims filed, depending on the nature of the alleged injury, the jurisdiction where filed and the quality of the product identification, or a significant upward or downward trend in the costs of defending claims, could change the estimated liability, as would substantial adverse verdicts at trial. A legislative solution or a revised structured settlement transaction could also change the estimated liability.

The same factors that affect developing estimates of probable settlement and defense costs for asbestos-related liabilities also affect estimates of the probable insurance payments, as do a number of additional factors. These additional factors include the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, how settlement and defense costs will be covered by the insurance policies and interpretation of the effect on coverage of various policy terms and limits and their interrelationships. In addition, due to the uncertainties inherent in litigation matters, no assurances can be given regarding the outcome of any litigation, if necessary, to enforce the Company's rights under its insurance policies.

Many uncertainties exist surrounding asbestos litigation, and the Company will continue to evaluate its estimated asbestos-related liability and corresponding estimated insurance reimbursement as well as the underlying assumptions and process used to derive these amounts. These uncertainties may result in the Company incurring future charges or increases to income to adjust the carrying value of recorded liabilities and assets, particularly if the number of claims and settlement and defense costs change significantly or if legislation or another alternative solution is implemented; however, the Company is currently unable to estimate such future changes and, accordingly, while it is probable that the Company will incur additional charges for asbestos liabilities and defense costs in excess of the amounts currently provided, the Company does not believe that any such amount can be reasonably determined. Although the resolution of these claims may take many years, the effect on the results of operations, financial position and cash flow in any given period from a revision to these estimates could be material.

SECTION 9 FINANCIAL STATEMENTS AND EXHIBITS

Item 9.01. Financial Statements and Exhibits.

- (a) None
 - (b) None
 - (c) None
 - (d) Exhibits
- 99.1 Earnings Press Release dated July 27, 2009, issued by Crane Co.
- 99.2 Crane Co. Quarterly Financial Data Supplement for the quarter ended June 30, 2009

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CRANE CO.

Dated: July 27, 2009

By: /s/ Timothy J. MacCarrick
Timothy J. MacCarrick
Vice President, Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
99.1	Earnings Press Release dated July 27, 2009, issued by Crane Co.
99.2	Crane Co. Quarterly Financial Data Supplement for the quarter ended June 30, 2009.

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urities In 1998, we issued \$4,625,400 face value of 8% secured convertible debentures due September 30, 1999. Interest on the debentures accrued upon the date of issuance until payment in full of the principal sum was been made or duly provided for. Holders of the debentures have the option, at any time, until maturity, to convert the principal amount of their debenture, or any portion of the principal amount which is at least \$10,000 into shares of the our common stock at a conversion price for each share equal to the lower of (a) seventy percent (70%) of the market price of the our stock averaged over the five -21- trading days prior to the date of conversion, or (b) the market price on the issuance date of the debentures. Any accrued and unpaid interest shall be payable, at our option, in cash or in shares of our common stock valued at the then effective conversion price. During 2000, all but one of the remaining outstanding debentures were converted into commons stock. At September 30, 2005, we owed \$50,000 to one debenture holder plus approximately \$25,000 in interest. Item 4. Submission of Matters to a Vote of Security Holders Not applicable. Item 5. Other Information The following reports were filed with the SEC on Form 8-K during the three month period ended September 30, 2005. September 16, 2005 - reporting under Item 2.01 the sale of certain assets previously acquired upon the acquisition of Cobham Gas Industries, Inc. The September 16, 2005 report also reported under Item 5.01 the resignation John G. Corp as a director and Vice President. However, the report inadvertently stated that Mr. Corp resigned as a director, although his resignation was only as an officer and he remains as a director. Item 6. Exhibits Exhibit 31.1 Certification of C.E.O. Pursuant to Section 302 of the Sarbanses-Oxley Act of 2002. Exhibit 31.2 Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanses-Oxley Act of 2002. Exhibit 32.1 Certification of C.E.O. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Exhibit 32.2 Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. -22- SIGNATURES In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. TRANS ENERGY, INC. Date: November 25, 2005 By /S/ Clarence E. Smith ----- Clarence E. Smith Chief Executive Officer and Director Date: November 25, 2005 By /S/ William F. Woodburn ----- WILLIAM F. WOODBURN Secretary / Treasurer (Principal Accounting Officer) -23- ear. Under the provisions of the Profit Sharing Plan, criteria established each year will include:

designation of one or more performance periods for the fiscal year,

determination of the formula for determining the profit share pool for each performance period, including the performance goals used in the formula,

assignment of an initial profit share pool allocation for each performance period for each eligible employee of the Bank and the Company based on responsibility level, and

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designation of a performance rating factor for each eligible employee of the Bank and the Company.

The Profit Sharing Plan also provides that the Compensation Committee of the Board may designate any employee, including an executive officer, as ineligible to receive a profit sharing allocation at its complete discretion. Additionally, the Committee may adjust any employee's profit sharing allocation from the profit sharing pool at its discretion. However, no individual profit sharing allocation can exceed 7.5% of the entire profit sharing pool for any performance period, and total profit sharing allocations for any performance period cannot exceed 100% of the profit sharing pool for the performance period. Lastly, no individual profit sharing allocation can exceed 50% of that individual's base salary, and total profit sharing allocations made to executive officers of the Company cannot exceed 25% of the profit sharing pool in any performance period.

The performance goals established by the Compensation Committee for the Profit Sharing Plan for 2011 include measures based on the Company's strategic goals for 2011. The Compensation Committee reviewed and approved management's recommended thresholds for each criterion. In 2011, the Company had to meet the following minimum criteria in order for a profit sharing pool to be established:

a consolidated return on average assets, which is calculated as consolidated net income divided by average total assets, of at least 0.75%;

a ratio of total regulatory capital to risk-weighted assets of at least 10%;

a ratio of tier one regulatory capital to risk-weighted assets of at least 6%;

a ratio of tier one regulatory capital to total average assets of at least 5%; and

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a ratio of classified assets to total risk-based regulatory capital for the Bank of no more than 35%. Classified assets include loans classified as substandard, doubtful or loss assets within the Bank's internal risk rating system, plus other real estate owned and other repossessed assets.

Once the above criteria are met, the profit sharing pool for 2011 is calculated by multiplying pre-tax net income by 5% for the consolidated return on average assets up to 1.00%. For consolidated return on average assets in excess of 1% and up to 1.25%, the Company multiplies pre-tax net income by 3%. No additional profit sharing pool is established if the Company's consolidated return on average assets exceeds 1.25%. The Compensation Committee approved management's recommendation based upon the calculated payout under the Profit Sharing Plan's methodology resulting in an aggregate payout of \$786,000 for 2011, \$143,000 of which was paid, in the aggregate, to the named executive officers.

Options and Other Stock-Based Compensation The Compensation Committee is of the philosophy that offering stock-based incentives to executives and key employees: (i) attracts and retains the best available personnel for the long-term; (ii) enhances long-term profitability and shareholder value; and (iii) encourages employees to acquire and maintain stock ownership in the Company, thereby more closely aligning the interests of employees and shareholders. The Compensation Committee follows this philosophy and, subject to the Company's employee stock incentive plans, may determine the employees eligible to receive options and awards and to assess the amount of each option and award.

The Company's 2010 Stock Incentive Plan (2010 Plan), an omnibus plan approved by shareholders, authorizes the Board or the Compensation Committee to administer the Plan and to grant to eligible key employees nonqualified stock options, restricted stock, restricted units, performance shares, performance units, stock appreciation rights, or dividend equivalent rights. The Compensation Committee has not delegated any aspect of the administration of any of the Company's stock incentive plans, including the 2010 Plan, to any other persons.

The 2010 Plan is designed to afford the Compensation Committee flexibility, consistency, and balance in determining and governing the terms and mix of the annual grant of long-and-shorter-term equity based compensation awards to the Company's executive officers and other employees key to the safe and profitable operation of the Bank. The majority of participants in the Plan are members of the Bank's senior management team. Participants, including the Company's named executives, are grouped within five tier levels for purposes of granting awards. These tiers are defined by the scope of the participants' responsibility and roles within the organization. The proportion of stock options and restricted stock units granted may vary depending upon an employee's position within the five tier levels.

The Compensation Committee believes that the awards of stock options and shorter-term restricted units serve to tie the executives' interests to those of the Company's shareholders. These awards also provide an incentive for the executives' long-term retention given the competitive climate in the Bank's marketplace for experienced and seasoned bankers. The methodology for calculating the total value of equity awards that will be awarded to employees, including the executives, starts with calculating that aggregate value that will be allocated to employees. The aggregate value is calculated by taking the Company's market capitalization times 0.50%. This value is then allocated to employees based on tiers. Employees are placed into tiers based on their level of responsibility within the Company. The Chief Executive Officer recommends proposed grantees and proposed award levels based on performance. The Committee has full discretion to approve, deny, or change any recommendations from the Chief Executive Officer. The Compensation Committee also analyzes the financial impact of the grant on the Company's income statement and the potential dilution of the grant to existing shareholders compared to prior grants and the Company's peer group.

The Company has not established any program whereby executives, key personnel, or directors are required to own and purchase within any specific schedule a defined number of shares of the Company's common stock.

Retirement and Other Deferred Benefits

Deferred Compensation Plan Effective as of January 1, 1995, as amended effective as of October 3, 1996 and January 1, 2005, the Bank established a Deferred Compensation Plan (DCP) for the purpose of providing benefit planning to key employees of the Bank by permitting them to defer the receipt of compensation. All offi-

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cers of the Bank and the Company, including the named executive officers, are eligible to participate and other key employees may become eligible to participate if so notified by the Compensation Committee.

The DCP provides that on or prior to December 31 of each year the plan is in effect, any eligible employee may elect in writing to defer receipt of at least five percent to a maximum of one hundred percent of their salary to be paid in the calendar year following the year of election. Any election is irrevocable as to any salary payable in the next year and effective with respect to future years unless revoked by the participant prior to December 31 of the year preceding the year in which the deferral is to take effect. Under the DCP, eligible employees, including the named executive officers, may elect to defer receipt of all or a portion of their remaining salary to be paid in the current calendar year if such written election is made within 30 days after she or he is first notified by the Compensation Committee of her or his eligibility to become a participant. The DCP provides that any eligible employee may elect to defer receipt of at least five percent to a maximum of one hundred percent of their performance based payments for services to be performed in a succeeding plan year under the same conditions described above. All amounts deferred are credited to participant accounts with interest compounded annually. According to the DCP, interest is based on the Bank's average yield on its total assets calculated on January 1, based on the prior year's performance, less one percentage point. Therefore, the rate of interest calculated for 2011 was 2.94%. None of the named executive officers elected to defer receipt of compensation in 2011.

The DCP, as amended effective January 1, 2005 to comply with new regulations under Internal Revenue Code section 409A, provides that Pre-2005 Grandfathered Accounts will be administered separately from Post-2004 Accounts, meaning that amounts deferred and vested prior to 2005 shall be credited to a Pre-2005 Grandfathered Account, while Post-2004 deferrals shall be credited to a Post-2004 Account and administered in accordance with Internal Revenue Code Section 409A.

As to the form and timing of payments, participants having *Pre-2005 Grandfathered Accounts*, shall be paid in installments or as a lump sum in accordance with the participant's deferral election. The Compensation Committee may elect at its sole discretion to accelerate payments if an irrevocable written request is made within at least 30 days prior to the date of the first scheduled payment. If an accelerated payment is made, then the participant will be subject to a penalty payable to the Bank in an amount equal to two percent of the accelerated amount. If installment payments are elected, a level series of monthly payments will be computed based on account balance, time period selected, and applicable interest rate in effect as of the benefit commencement date. In this case, the applicable interest rate will be 50 basis points over the average of U.S. Treasury Note Rate for the preceding 12 months, that precede the commencement of payments and will be the nearest quoted rate for a maturity representing two-thirds of the installment pay-out period. Any deferral must be for a minimum period of two years with a distribution of a participant's account beginning on the first day of the month following sixty days after the earliest of voluntary or involuntary termination of employment, disability, or expiration of the deferred election.

The DCP provides that a participant's *Post-2004 Account* will be 100% vested and non-forfeitable at all times and shall become payable to her or him upon expiration of the deferral election. Any deferral election for this account to a specified future distribution date must be for at least two plan years. By December 31, 2010, all participants elected to receive their *Post-2004 Account* at the end of her or his deferral period in a lump sum or in annual installments not to exceed 10 years, and new participants after December 31, 2010 must elect at the time they become participants to receive their *Post-2004 Account* at the end of their deferral period in a lump sum or in annual installments not to exceed 10 years.

The DCP sets forth limitations as to Section 162(m) of the Internal Revenue Code of 1986. Also, the intent of the DCP, as written, is to comply with the provisions of Internal Revenue Code Section 409A.

Northrim Bank Savings Incentive Plan 401k Executive officers participate in the Company's qualified retirement plan, the Northrim Bank Savings Incentive Plan (401k Plan) to the same extent and subject to the same rules and limitations as the Company's and the Bank's other employees. The 401k Plan provides for a mandatory \$0.25 match for each \$1.00 contributed by an employee up to 6% of the employee's salary. The 401k Plan also provides for a three-tier discretionary service based match regardless of the employee's participation in the 401k Plan. The first tier matches 1% of an employee's salary if an employee has worked at the Bank for more than one but less than three years. The second tier matches 2% of an employee's salary if an employee has

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worked at the Bank for more than three but less than six years, and the third tier matches 4% of an employee's salary if an employee has worked at the Bank in excess of six years. The 401k Plan allows for an additional discretionary contribution of up to \$0.75 for each \$1.00 contributed by an employee up to 6% of that employee's salary. A residual discretionary contribution after all the previously listed contributions have been made is also provided for under the 401k Plan. Based upon the Bank's performance in 2011, the service based match was approved by the Compensation Committee and the Board of Directors. There was no discretionary match approved in 2011 due to the implementation of the Bank's new Profit Sharing Plan.

Supplemental Executive Retirement Plan Effective July 1, 1994, the Bank adopted the Northrim Bank Supplemental Executive Retirement Plan (SERP) for the benefit of its executive officers, including the named executive officers. As provided by the SERP, the Company makes annual contributions to participant accounts on January 1 at a percentage rate of annual base salary determined and approved by the Compensation Committee. The Compensation Committee can exercise its authority to determine and approve increases to this percentage, as well as approve new participants under the SERP. The Compensation Committee generally makes these determinations based upon recommendations of the Chief Executive Officer or the Chief Operating Officer and upon consideration of the percentage rates of annual base salary contributed by the Company for each SERP participant and relative levels of each participant's current responsibility.

Earnings under the SERP are credited for the year on January 1 and based on the Bank's average yield on its total assets, less a three year rolling average of net loan charge-offs as a percentage of average loans outstanding for the respective periods. The SERP provides for payment of a specified amount to plan beneficiaries or their survivors upon retirement, with early retirement permitted after the participant's 55th birthday, if she or he has been a plan participant for at least five years prior to retirement. Benefits are payable monthly beginning 90 days after retirement, with the amount payable being equal to the total plan account balance for that participant (including interest at a specified fixed rate) divided by 12 months, divided by the number of years over which the participant elects to receive payments, with 15 years being the maximum period over which payout is permitted. If the participant dies prior to commencement of benefits, benefits are paid to the participant's survivors in equal installments over 15 years unless the Compensation Committee elects to accelerate payment.

Supplemental Executive Retirement Deferred Compensation Plan The Compensation Committee, the Board and management have deemed it prudent for the Bank to have life insurance protection on certain executives, considering the out-of-pocket costs related to replacing an executive officer, as well as the intangible but real loss due to disruptions in management and loss of existing or new business because of the death of a key individual. For these reasons, the Compensation Committee and the Board authorized the Bank to establish the Supplemental Executive Retirement Deferred Compensation Plan (SERDCP), a non-qualified deferred compensation plan. Certain executives, as identified by the Compensation Committee, including each of the named executive officers except for Mr. Hartung, are entitled to participate in the SERDCP. The SERDCP is intended to provide a source of funds for participants' retirement through the Bank's purchase and ownership of key man insurance coverage in the form of a variable adjustable life policy in an amount approved by the Compensation Committee and the Board for each participant. The annual premium payment covers the cost of providing the Bank with a full death benefit for the face amount of the policy, and the cost of providing the executive the deferred compensation retirement benefit or a death benefit to the executive's beneficiaries in the event of the executive's death before retirement. The amount of payment is equal to the greater of the policy's then cash surrender value or a stated amount which is less than the death benefit of the policy. Earnings are based upon the participant's discretionary selection of investment opportunities available through the insurance provider to develop the cash surrender value of the portion of the premiums paid and allocated for that purpose.

In the event of the participant's retirement, the cash surrender value of the policy can be paid out in a lump sum or in installments not to exceed ten years. The participant can also elect to receive the insurance policy net of a distribution of cash value sufficient to pay taxes upon receipt of the policy. In the event of the participant's death, an amount equal to the greater of the cash surrender value or a stated death benefit, as described in the SERDCP document, would be paid to the participant's beneficiary.

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Tax and Accounting Treatment of Executive Compensation

Deductibility of Executive Compensation

The Compensation Committee is aware of the limits set on individual grants to provide for the Company's deductibility of options and performance-based awards under Section 162(m) of the Internal Revenue Code (the "Code"). Individual grants of options and stock appreciation rights are limited to 100,000 shares during any three consecutive calendar years; individual grants of restricted stock, restricted stock units, performance shares, and performance units are limited to 50,000 during any three consecutive calendar years. Performance measures are included in the 2010 Plan as required for performance shares and performance units to qualify for exemption under Section 162(m).

Nonqualified Deferred Compensation

Section 409A of the Code imposes election, payment, and funding requirements on nonqualified deferred compensation plans. If a nonqualified deferred compensation arrangement subject to Section 409A of the Code fails to meet, or is not operated in accordance with, the requirements of Section 409A, then compensation deferred under the arrangement may become immediately taxable and subject to a 20% additional tax. Certain awards that may be issued under the plan may constitute a deferral of compensation subject to the requirements of Section 409A of the Code.

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

The following table sets forth information regarding compensation earned by our Chief Executive Officer, our Chief Financial Officer and three other most highly compensated officers for the fiscal years ended December 31, 2011, December 31, 2010, and 2009, as well as certain other compensation information for the named executive officers during the years indicated:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)¹	Option Awards (\$)²	Non-Equity Incentive Plan Compensation (\$)³	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)⁴	All Other Compensation (\$)⁵	Total (\$)
R. Marc Langland, Chairman, President,	2011	\$ 324,012	N/A					\$ 180,945	\$ 504,957
	2010	\$ 324,012	N/A					\$ 183,060	\$ 507,072
Chief Executive Officer	2009	\$ 324,012	N/A	\$ 34,221	\$ 8,552		\$ 147	\$ 183,060	\$ 549,992
Joseph M. Schierhorn, Executive Vice President,	2011	\$ 238,366	N/A	\$ 26,680	\$ 16,906	\$ 36,113		\$ 102,118	\$ 420,183
	2010	\$ 233,496	N/A	\$ 38,581	\$ 12,862	\$ 30,551	\$ 12,020	\$ 108,286	\$ 435,796
Chief Financial Officer	2009	\$ 225,008	N/A	\$ 42,556	\$ 14,152		\$ 21,456	\$ 99,294	\$ 402,466
Christopher N. Knudson, Executive Vice President,									
Chief Operating Officer	2011	\$							