

NATCO GROUP INC  
Form DEF 14A  
March 26, 2008  
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## SCHEDULE 14A INFORMATION

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

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

Check the appropriate box:

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

**NATCO Group Inc.**

(Name of Registrant as Specified in its Charter)

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

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

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(4) Date Filed:

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NATCO GROUP INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 8, 2008

To Our Stockholders:

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

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

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

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

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

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

Sincerely,

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

March 26, 2008

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**NATCO Group Inc.**

**11210 Equity Drive**

**Houston, Texas 77041**

**PROXY STATEMENT**

**for the**

**ANNUAL MEETING OF STOCKHOLDERS**

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

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

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

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

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

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

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

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

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

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

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

**5. How do I vote?**

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

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



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

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

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

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

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

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

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

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

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

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

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

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

**8. Who counts the vote?**

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

**9. Is my vote confidential?**

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



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

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

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

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

**12. What constitutes a quorum?**

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

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

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

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

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

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



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

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

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

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

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

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

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

NATCO Group Inc.

Attn: Investor Relations

11210 Equity Drive

Houston, TX 77041

(713) 849-7500

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

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

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

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

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

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

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

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

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

**ITEMS TO BE VOTED ON BY STOCKHOLDERS**

**Proposal 1: Election of Directors**

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

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

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

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

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

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

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



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

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

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

**BOARD OF DIRECTORS**

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

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

*Class I Directors*

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

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

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

**Continuing Directors**

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

*Class II Directors*

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

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

*Class III Directors*

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

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

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

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

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

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

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

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

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**CORPORATE GOVERNANCE**

**Director Independence**

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

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

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

**Audit Committee; Audit Committee Financial Expert**

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

**Governance, Nominating & Compensation Committee**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

personal characteristics:

high personal and professional ethics, integrity and values;

an inquiring and independent mind; and

practical wisdom and mature judgment;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**COMPENSATION DISCUSSION & ANALYSIS**

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

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

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

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

to attract and retain talented and experienced people; and

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

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

**Compensation Philosophy**

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

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

the Company's rate of growth;

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

the employee's desire for career advancement;

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

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

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

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

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

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

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

senior management ownership of Company stock should be strongly encouraged;

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

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

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

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

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

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



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### **Elements of Compensation**

The Company's executive compensation program:

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

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

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

affords competitive benefit packages with limited perquisites;

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

- (1) Awards were made as part of the annual long-term incentive compensation assessment.  
(2) Represents the number of units initially awarded. Each unit has a value of \$1.00. Such units will be adjusted at the end of the performance cycle as described above under Long-Term Incentive Compensation.

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

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

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

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

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

Medical/dental/vision coverage

Employee Assistance Program

Life insurance

401(k) match

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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



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

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

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

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

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

(2)

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

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

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

**Options Exercised and Stock Vested in 2007**

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

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

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

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### **Employment Arrangements for Certain Named Executive Officers**

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Potential Payments on Termination Under Various Scenarios\**

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

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

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

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

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

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

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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

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

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

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

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**COMMITTEE REPORTS**

**Governance, Nominating & Compensation Committee Report**

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

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

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

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

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

The Governance, Nominating & Compensation Committee:

Thomas C. Knudson (Chair)

Thomas R. Bates, Jr.

Julie H. Edwards

**Audit Committee Report**

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



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

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

In performing its oversight function, the Audit Committee has reviewed and discussed with the Company's management and independent public accountants the audited financial statements for the year ended December 31, 2007 and unaudited quarterly operating results prior to their issuance. In addition, the Audit Committee discussed with KPMG LLP matters required by Statement on Auditing Standards No. 61, as amended. The Audit Committee also received and reviewed the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 and discussed with KPMG LLP their independence. The Audit Committee also reviewed apx solid #000000; BORDER-BOTTOM:1px solid #000000; padding-right:8px">

**Market Value  
of Shares or  
Units of  
Stock that  
Have Not  
Vested**

(\$)

R. David Yost

01/22/2001	163,505	\$21.58	01/22/2011	09/17/2001	204,381	\$31.32	09/17/2011	04/23/2002	204,381	\$34.49	04/23/2012	02/27/2013
<hr/> <hr/> <hr/> <hr/>												
1,157,308		267,474		32,917		\$1,239,325						

Michael D. DiCandilo

09/17/2001	51,095	\$31.32	09/17/2011	04/23/2002	102,190	\$34.49	04/23/2012	02/27/2003	112,409	\$27.08	02/27/2013	03/08/2004
<hr/> <hr/> <hr/> <hr/>												
538,733		208,087		25,833		\$972,613						

Steven H. Collis

08/08/2001	3,000	\$26.63	08/08/2011	04/23/2002	71,533	\$34.49	04/23/2012	02/27/2003	71,533	\$27.08	02/27/2013	03/08/2004
<hr/> <hr/> <hr/> <hr/>												

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416,231 199,547 24,583 \$925,549

Jeanne B. Fisher

01/02/2003 15,438 \$28.19 01/02/2013 03/08/2004 40,876 \$28.12 03/08/2014 03/03/2005 30,657 10,219 \$30.39 03/03/2015 02/08/2006

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105,173 68,084 8,334 \$313,775

John G. Chou

02/27/2003 15,328 \$27.08 02/27/2013 03/08/2004 16,350 \$28.12 03/08/2014 03/03/2005 12,569 4,190 \$30.39 03/03/2015 02/08/2006

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53,444 39,801 4,917 \$185,126

(1) The options shown in this column have not vested and will vest at a rate of 25% per year over four years from the date of grant, subject to the named executive officer's continued employment.

(2) These restricted stock awards will vest 100% on the third anniversary of the date of grant.

**Table of Contents****Option Exercises and Stock Vested in Fiscal Year 2008**

The following table sets forth the number of shares acquired and the value realized upon exercise of stock options during fiscal year 2008 by each of the named executive officers. No restricted stock awards vested in fiscal year 2008 for any of the named executive officers.

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)
R. David Yost	81,753	\$ 2,989,936
Michael D. DiCandilo		
Steven H. Collis	2,111	\$ 43,173
Jeanne B. Fisher		
John G. Chou		

(1) Value realized on exercise is based on the fair market value of our common stock on the date of exercise minus the exercise price and does not necessarily reflect proceeds actually received by the named executive officer.

**Pension Benefits**

The following table provides information concerning pension benefits for Messrs. Yost and DiCandilo. None of the other named executive officers participate in any pension or supplemental pension plan.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit (1)	Payments During Last Fiscal Year (\$)
R. David Yost	Pension Plan	32.8	\$654,771	
	Supplemental Retirement Plan	32.8	\$4,290,917	
Michael D. DiCandilo	Pension Plan	16.8	\$105,519	
	Supplemental Retirement Plan	16.8	\$314,303	

(1) The present value of the accumulated benefit is calculated as of the June 30, 2008 pension plan measurement date using the RP-2000 Mortality Table for Males and Females and using a discount rate of 6.85%. See Note 9 to the consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008 for assumptions used to estimate the benefit obligation.

*AmerisourceBergen Drug Corporation Participating Companies Pension Plan.* We maintain a qualified defined benefit pension plan for employees who meet the plan's eligibility requirements. This pension plan was frozen as to new participants shortly after the merger on August 29, 2001 of AmeriSource Health Corporation and Bergen Brunswig Corporation that formed AmerisourceBergen. Employees first hired after September 14, 2001 are not eligible to participate in the pension plan, unless pursuant to the terms of a collective bargaining agreement with us that provides for such participation. Effective August 1, 2004, no collective bargaining agreements allow new participants to participate

in the pension plan. In addition, the pension plan has been amended so that participants have ceased to earn any additional benefits under the plan for any compensation paid or services performed after June 30, 2007. Accordingly, the maximum benefits payable to participants were frozen as of June 30, 2007. Executive officers and other participants are entitled to annual pension benefits upon retirement at age 65 with at least five years of service. The benefit is equal to the number of years of credited service multiplied by 1% of the average annual compensation earned during the three consecutive years within the last ten years of participation in the pension plan that yield the highest average. The pension plan provides for early retirement at age 55 with at least 5 years of service. If an executive retires early, benefits will be reduced by 3.33% for each year between ages 55 and 60 and by 6.67% for each year between ages 60 and 65. Mr. Yost is the only named executive officer eligible for early retirement under the pension plan. All pension plan costs are paid

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by us and the plan and benefits are funded on an actuarial basis. Compensation earned by executive officers for purposes of the pension plan includes salaries and bonuses, except that compensation recognized under the plan may not exceed certain limits, as required by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code. For 2008, the compensation limit was \$230,000. As required by federal law, the pension plan limits the maximum annual benefits payable at Social Security retirement age as a single life annuity to the lesser of \$180,000 or 100% of a plan participant's average total taxable earnings during his or her highest three consecutive calendar years of participation, subject to certain exceptions for benefits which accrued prior to September 30, 1988.

*AmerisourceBergen Drug Corporation Supplemental Retirement Plan.* We also maintain a supplemental retirement plan. Benefits under the supplemental retirement plan were frozen as of June 30, 2007. Coverage under the supplemental retirement plan is limited to certain participants in the pension plan whose benefits under the pension plan are limited due to (i) restrictions imposed by the Internal Revenue Code on the amount of benefits to be paid from a tax-qualified plan, (ii) restrictions imposed by the Internal Revenue Code on the amount of an employee's compensation that may be taken into account in calculating benefits to be paid from a tax-qualified plan, or (iii) any reductions in the amount of compensation taken into account under the pension plan due to an employee's participation in certain deferred compensation plans sponsored by AmerisourceBergen or one of its subsidiaries. The supplemental plan provides for a supplement to the annual pension benefit paid under the pension plan to certain individuals who are pension participants and who have been employed by AmerisourceBergen or one of its subsidiaries for five continuous years or who suffer a total and permanent disability while employed by AmerisourceBergen or one of its subsidiaries, and to the pre-retirement death benefits payable under the pension plan on behalf of such participants who die with a vested interest in the pension plan. The amount of the supplement will be the difference, if any, between the pension or pre-retirement death benefit paid under the pension plan and that which would otherwise have been payable but for the restrictions imposed by the Internal Revenue Code and any reduction in the participant's compensation for purposes of the pension plan due to his or her participation in certain deferred compensation plans of AmerisourceBergen or one of its subsidiaries. The supplemental retirement benefit is payable in a lump sum upon termination, subject to any restrictions imposed under regulations under Section 409A of the Internal Revenue Code governing deferred compensation.

**Non-Qualified Defined Contribution and Other Deferred Compensation in Fiscal Year 2008**

The following table sets forth information regarding participation by the named executive officers in AmerisourceBergen's deferred compensation plan and supplemental 401(k) plan during fiscal year 2008 and at fiscal year end.

Name	Executive Contributions in Last Fiscal Year to Deferred Compensation Plan (\$)(1)	AmerisourceBergen Contributions in Last Fiscal Year to AmerisourceBergen Corporation Supplemental 401(k) Plan (\$)(1)	Earnings in Last Fiscal Year in Deferred Compensation Plan (\$)(2)	Earnings in Last Fiscal Year in Supplemental 401(k) Plan (\$)(2)	Aggregate Withdrawals / Distributions (\$)	Balance at Last Fiscal Year End in Deferred Compensation Plan (\$)	Balance at Last Fiscal Year End in Supplemental 401(k) Plan (\$)
R. David Yost		\$91,257		\$(23,829)			\$172,672
Michael D. DiCandilo		\$40,438	\$(5,767)	\$(13,406)		\$21,074	\$68,335
Steven H. Collis	\$73,981	\$19,277	\$(210,482)	\$(8,622)		\$683,761	\$42,080
Jeanne B. Fisher	\$61,187	\$10,974	\$1,973	\$(9,164)		\$73,800	\$61,422
John G. Chou		\$7,669		\$(9,347)			\$44,547

(1) The amounts shown as contributions to the deferred compensation plan and the supplemental 401(k) plan are also reported as compensation to the named executive officer in the Summary Compensation Table.

(2) Amounts shown represent the net change to the named executive officer's account in fiscal year 2008 for the aggregate gains and losses on the plan investments under the supplemental 401(k) plan and the deferred compensation plan. The amounts shown are not considered above market or preferential

earnings and are not reported as compensation in the Summary Compensation Table.

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*Deferred Compensation Plan.* Eligible executive officers may elect to defer up to 50% of their annual cash compensation and have the deferred amount credited in an account under the deferred compensation plan. Deferral elections are made in December for compensation to be earned in the next year. Election forms must be filed for each year an executive officer wishes to defer compensation and each form shall specify the method of payment of benefits and the time such payment is to commence. Participants select the investment options under the plan and may change their election at any time by contacting the plan administrator. Aggregate earnings and losses on plan investments are credited to participants' accounts on a quarterly basis. The deferred benefits will be distributed by us in accordance with the terms of the plan and payment will be made at the times elected by the executive officer in accordance with the election form. An executive officer must specify whether he or she wishes to receive payment starting in the year of retirement or in the year after retirement and may elect to receive the deferred benefits (i) over annual periods ranging from three to fifteen years and payable in quarterly installments or (ii) in a single distribution. We pay all costs and expenses incurred in the administration of the plan.

*AmerisourceBergen Corporation Supplemental 401(k) Plan.* Selected key management, including all of the named executive officers, participate in the supplemental 401(k) plan. The supplemental 401(k) plan credits the account of each eligible participant with an annual amount equal to four percent (4%) of the participant's base salary and bonus incentive to the extent that his or her compensation exceeds the annual compensation limit established for our 401(k) plan by the Internal Revenue Code. The compensation limit is \$230,000 for 2008. Annual accruals under the executive plan commenced effective as of January 1, 2006. In addition to annual accruals, certain eligible participants were credited with an initial amount based on his or her service after the merger in 2001 to form AmerisourceBergen. Fidelity Investments administers the supplemental 401(k) plan. Participants will be permitted to allocate the amounts in their accounts among investment options specified by the supplemental 401(k) plan administrator from time to time. Such allocation will be only for the purposes of determining gains and losses based on the performance of the underlying investments. Fidelity will credit participant accounts with plan benefits following the close of each calendar year. Account balances under the supplemental 401(k) plan do not vest in full until an employee reaches age 62 (or age 55 with more than 15 years of service), except that vesting is accelerated for disability, death and a change in control (as long as the participant is employed by the company on the date of the change in control). If a participant is terminated for cause, he or she forfeits all vested and unvested account balances under the supplemental 401(k) plan.

## **Employment Agreements**

We have employment agreements with each of our named executive officers. These employment agreements were amended and restated in the last calendar quarter of 2008 to comply with Section 409A of the Internal Revenue Code and make certain other modifications. Mr. Yost's employment agreement provides that he shall serve as Chief Executive Officer reporting to the Board. Mr. DiCandilo's employment agreement provides that he shall serve as Executive Vice President and Chief Financial Officer of the company and Chief Operating Officer of AmerisourceBergen Drug Corporation, reporting to the Chief Executive Officer. The employment agreement for Mr. Collis provides that he shall serve as Executive Vice President of the company and President of AmerisourceBergen Specialty Group, or in any other substantially equivalent or greater position with the company (or any of its business units). The employment agreements for Ms. Fisher and Mr. Chou provide, respectively, that Ms. Fisher shall serve as Senior Vice President, Human Resources and Mr. Chou shall serve as Senior Vice President, General Counsel and Secretary. Except as noted, the employment agreements are substantially similar in form and substance. Each employment agreement provides the following:

Continuation of base salary in effect for the named executive officer, subject to increase in accordance with our prevailing practice from time to time.

Incentive compensation, bonus and benefits in accordance with our prevailing practice from time to time.

Rights on our part to terminate the executive for cause or without cause.





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Rights on the executive's part to terminate for good reason (upon at least 60 days' prior written notice and opportunity for the company to cure) or without good reason (upon at least 30 days' prior written notice).

For a period of two years following termination of employment, Messrs. Yost, DiCandilo and Chou and Ms. Fisher have agreed not to compete, directly or indirectly, with any business in which we or our subsidiaries engage or solicit any of our employees for employment. For a period of two years from termination of employment, Mr. Collis has agreed to refrain from being employed or engaged as a director, officer, consultant or independent contractor for specified competitors of the company or AmerisourceBergen Specialty Group and may not solicit any of our employees for employment.

### **Potential Payments upon Termination of Employment or Change in Control**

*Termination of Employment without Cause or Resignation with Good Reason.* Our named executive officers' employment agreements provide for severance payments in the event that we terminate their employment without cause or they leave the company for good reason. The table below identifies what would constitute cause or good reason to terminate employment under the agreements:

#### **Cause for termination means:**

Continued failure to substantially perform job duties  
Willful misconduct  
Conviction of a felony  
Conviction of a misdemeanor involving moral turpitude that materially harms the company

#### **Good reason for termination means:**

Reduction in base salary  
Diminution of authority, duties or responsibilities  
Failure to provide agreed position or pay

In the case of Mr. Yost, the failure to be elected to the Board

In order to receive severance payments, the named executive officer must sign a release of any and all claims relating to his or her employment with us. These benefits, which are generally payable for a period of two years following the loss of his or her employment unless otherwise noted, include:

payment of base salary and bonus (based on the average annual bonuses paid in the preceding 3 years);

reimbursement of costs incurred by the executive to continue health coverage after the termination of employment;

executive outplacement assistance;

if the termination occurs after bonuses for the preceding fiscal year are paid to employees generally, a pro rata target bonus for the year of termination of employment (paid when bonuses are paid to employees generally); and

accrued but unpaid cash compensation, such as unpaid base salary, vacation pay and business expenses (paid in a lump sum within 30 days of termination of employment).

To the extent compliance with Section 409A of the Internal Revenue Code is necessary to avoid the application of an excise tax to any of the foregoing payments and benefits, the employment agreements provide for deferral (without interest) of any affected amounts due in the six months following the termination of employment.

*Termination of Employment with Cause or Resignation without Good Reason.* If we fire the executive for cause or he or she resigns without good reason, we will not pay the executive any cash severance. We will, however, pay him or her accrued but unpaid cash compensation through the date of termination. These amounts will include base salary through the date of termination, declared but unpaid bonus, accrued vacation pay and outstanding employee business expenses.

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*Disability or Death.* If a named executive officer becomes disabled or dies, we will pay the executive, or his or her estate, the executive's pro rata target bonus and an amount equal to his or her accrued but unpaid cash compensation (including base salary, vacation pay and outstanding business expenses). We will pay this amount in a lump sum in cash within 30 days from the date of disability or death, except for the portion attributable to the cash bonus. That amount will be paid when the annual bonuses are paid to all employees generally.

*Retirement and Deferred Compensation Benefits.* Following retirement or termination of employment, our named executive officers will receive payment of retirement benefits and deferred compensation benefits under various plans in which they participate. The value of those benefits as of September 30, 2008 is set forth on pages 47 and 48 in the tables entitled "Pension Benefits" and "Nonqualified Defined Contribution and Other Deferred Compensation." There are no special or enhanced benefits under those plans for our named executive officers except that any account balances under the supplemental 401(k) plan would vest upon an executive's disability or death or as a result of a change in control of the company as long as the executive is employed by us on the date of the change in control. Mr. Yost is the only named executive officer currently eligible for early retirement under the pension plan and supplemental executive retirement plan.

### *Change in Control.*

We do not provide cash severance or enhanced benefits under the employment agreements with our named executive officers solely in connection with a change in control of the company. Certain of our benefit plans provide for accelerated vesting in connection with a change in control as follows:

account balances under the supplemental 401(k) plan would immediately vest upon a change in control as long as the executive is still employed by us.

unvested stock options will vest and restrictions on stock awards will lapse if the executive is involuntarily terminated by us, whether or not for cause, within two years after a change in control.

In the event of a change in control of the company prior to September 30, 2010, Mr. Yost would be entitled to receive under his multi-year long-term incentive award amounts earned, if any, for performance periods already completed and one-third of the total target value for the performance period in which the change in control occurs.

In addition, there are some circumstances where an award of benefits in connection with a change in control of the company is discretionary. Our internal benefits committee has discretion under our AIP to pay bonuses to eligible employees during any year in which a change in control occurs. If this discretion is exercised, bonus payments would be based on performance for the portion of the fiscal year until the change in control event and paid within 75 days of the change in control. In the event of a change in control, the Board may, in its discretion, cancel outstanding options that are not exercised within 30 days of the change in control, cash out the value of outstanding options or restricted stock or make any other adjustments it deems appropriate under the MIP. The Board may also cancel any award made under the MIP in exchange for payment of an equal value in cash or stock.

No payments made to a named executive officer as a result of termination may constitute excess parachute payments within the meaning of Section 280G of the Internal Revenue Code. The employment agreements require us to reduce, if necessary, the amount of severance due to the named executive officers in connection with a termination of employment to ensure that such payments do not constitute excess parachute payments. Assuming a change in control and an involuntary termination of employment as of September 30, 2008, no amount otherwise payable to Messrs. Yost, DiCandilo or Collis would constitute an excess parachute payment and, therefore, the amounts shown in the table below do not

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reflect any reduction in benefits for them. Applying the Section 280G analysis to benefits otherwise payable to Ms. Fisher and Mr. Chou in the event of a change in control and an involuntary termination of employment as of September 30, 2008, would result in a reduction in benefits in the amount of \$82,946 and \$445,941, respectively.

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

The table below quantifies the potential payments that would be owed to each named executive officer under various scenarios involving the termination of employment or change in control of the company as of September 30, 2008, the last business day of fiscal year 2008. The amounts presented are in addition to accumulated pension benefits and the balances under our deferred compensation plan (set forth on pages 47 and 48):

Name	Benefit	Termination			Termination by Company for Cause	Change in Control	Involuntary Termination with or without Cause within Two Years of Change in Control (1)
		Death and Termination with Disability	by Executive without Good Reason	by Executive for Good Reason			
R. David Yost (2)	Accrued Unpaid Salary	\$22,732	\$22,732	\$22,732	\$22,732		
	2008 Bonus	\$1,425,600		\$1,425,600			
	Salary Continuation			\$2,364,120			
	Bonus Continuation			\$2,452,525			
	COBRA Premiums			\$25,189			
	Outplacement			\$45,000			
	Accelerated Vesting of Equity (3)	\$1,239,325					\$1,554,243
	Incremental Pension Benefits (4)	\$1,693,118	\$1,693,118	\$1,693,118			
Supplemental 401(k) plan (5)							
	<b>Total</b>	<b>\$4,380,775</b>	<b>\$1,715,850</b>	<b>\$8,028,284</b>	<b>\$22,732</b>		<b>\$1,554,243</b>
Michael D. DiCandilo	Accrued Unpaid Salary	\$11,908	\$11,908	\$11,908	\$11,908		
	2008 Bonus	\$656,250		\$656,250			
	Salary Continuation			\$1,238,461			
	Bonus Continuation			\$1,051,105			
	COBRA Premiums			\$34,534			
	Outplacement			\$45,000			
	Accelerated Vesting of Equity (3)	\$972,613					\$1,194,913
	Incremental Pension Benefits (4)	\$295,230	\$295,230	\$295,230			
Supplemental 401(k) plan (5)	\$68,335				\$68,335		
	<b>Total</b>	<b>\$2,004,336</b>	<b>\$307,138</b>	<b>\$3,332,488</b>	<b>\$11,908</b>	<b>\$68,335</b>	<b>\$1,194,913</b>
Steven H. Collis	Accrued Unpaid Salary	\$10,381	\$10,381	\$10,381	\$10,381		
	2008 Bonus	\$545,000		\$545,000			
	Salary Continuation			\$1,079,614			
	Bonus Continuation			\$762,753			
	COBRA Premiums			\$35,511			
	Outplacement			\$45,000			
	Accelerated Vesting of Equity (3)	\$925,549					\$1,147,851
	Incremental Pension Benefits (4)						
Supplemental 401(k) plan (5)	\$42,080				\$42,080		
	<b>Total</b>	<b>\$1,523,010</b>	<b>\$10,381</b>	<b>\$2,478,259</b>	<b>\$10,381</b>	<b>\$42,080</b>	<b>\$1,147,851</b>
Jeanne B. Fisher	Accrued Unpaid Salary	\$6,172	\$6,172	\$6,172	\$6,172		
	2008 Bonus	\$325,000		\$325,000			
	Salary Continuation			\$641,924			
	Bonus Continuation			\$330,354			
	COBRA Premiums			\$12,136			
	Outplacement			\$45,000			
	Accelerated Vesting of Equity (3)	\$313,775					\$387,873
Incremental Pension Benefits (4)							

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Supplemental 401(k) plan (5)

	Total	\$644,947	\$6,172	\$1,360,586	\$6,172	\$387,873
John G. Chou	Accrued Unpaid Salary	\$5,671	\$5,671	\$5,671	\$5,671	
	2008 Bonus	\$195,000		\$195,000		
	Salary Continuation			\$589,731		
	Bonus Continuation			\$190,704		
	COBRA Premiums			\$32,045		
	Outplacement			\$45,000		
	Accelerated Vesting of Equity (3)	\$185,126				\$215,507
	Incremental Pension Benefits (4)					
	Supplemental 401(k) plan (5)	\$44,547			\$44,547	
	Total	\$430,344	\$5,671	\$1,058,151	\$5,671	\$44,547
						\$215,507

- (1) The benefits shown are in addition to any amounts that the executive would receive (i) as a result of the accelerated vesting of account balances under the supplemental 401(k) plan upon a change in control, as shown in the column Change in Control, or (ii) if the termination of his or her employment was without cause, as shown in the column Termination by Company without Cause or by Executive for Good Reason. Applying the Section 280G analysis to benefits otherwise payable to Ms. Fisher and Mr. Chou in the event

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of a change in control and an involuntary termination of employment as of September 30, 2008, would result in a reduction of benefits payable to them in the amount of \$82,946 and \$445,941, respectively.

- (2) Mr. Yost is the only named executive officer currently eligible to retire under our qualified pension plan, assuming retirement on September 30, 2008. If he were to have retired as of September 30, 2008, he would have received the accumulated retirement benefits shown for him in the tables on pages 47 and 48, except that the difference between the actual benefit payable as a lump sum on September 30, 2008 and the present value of the accumulated benefit shown in the Pension Benefits table is \$1,951,482. In the case of Mr. Yost's death, disability, retirement or termination of employment following a change of control occurring on September 30, 2008, Mr. Yost or his heirs would receive a distribution of the \$1,350,000 accrued for him under his long-term incentive award for the performance period ended on September 30, 2008. Except in the case of death, the distribution would occur at least 13 months after the termination from service. Payments will be made within 30 days after the date of death. Accrued amounts would be forfeited if Mr. Yost's service with us terminated for any other reason unless the Compensation and Succession Planning Committee determines otherwise.
- (3) The value of the accelerated vesting of unvested restricted stock is calculated by multiplying the number of shares of unvested restricted stock held by the named executive officer as of September 30, 2008 by \$37.65, the closing price of our common stock on that date. The value of the accelerated vesting of unvested options is calculated by multiplying the number of unvested options held by the named executive officer on September 30, 2008 by the difference between the exercise price of the options and \$37.65, the closing price of a share of our common stock on that date. Unvested restricted stock vests in the case of disability, death or an involuntary termination of employment within two years of a change in control of the company. Unvested stock options vest upon an involuntary termination of employment within two years of a change in control of the company.
- (4) The amount shown as payable under our supplemental retirement plan upon the termination of employment is the difference between the present value of the accumulated benefit shown in the Pension Benefits table and the actual benefit, payable as a lump sum, the named executive officer would receive had his or her employment been terminated on September 30, 2008. The actual lump sum benefit is calculated using an interest rate factor of 4.27% and the 1994 Group Annuity Mortality table in accordance with IRS rules. Benefits under the supplemental retirement plan may be forfeited by a participant if he is terminated for cause or engages in conduct that is detrimental to the company, such as joining a competitor.
- (5) The amounts shown represent the value of unvested account balances under the supplemental 401(k) plan for events that would result in the accelerated vesting and payment of those benefits. Account balances under the supplemental 401(k) plan do not vest in full until an employee reaches age 62 (or age 55 with more than 15 years of service), except that vesting is accelerated upon disability, death and change in control of the company (so long as the participant is employed by the company on the date of the change in control). Unvested account balances are forfeited if the participant is terminated for any reason other than death or disability. If a participant is terminated for cause, he or she forfeits all vested and unvested account balances under the supplemental 401(k) plan. Distribution of account balances upon termination of employment, death, disability or change in control are made in a lump sum. Mr. Yost is fully vested in his supplemental 401(k) plan account balance. Therefore, the amount of Mr. Yost's vested balance (shown in the Non-Qualified Defined Contribution and Other Deferred Compensation table) is not included here. Mr. Yost would forfeit this vested benefit if we terminated his employment for cause.

*Restricted Stock and Stock Option Awards.* Our restricted stock and stock option awards include provisions that result in the vesting or forfeiture of awards depending on the reason for termination of employment. These provisions are as follows:

<b>Reason for Termination</b>	<b>Unvested Awards</b>	<b>Impact on Expiration Date of Vested Options</b>
Termination for Cause	Forfeit	Immediately upon termination
Voluntary Termination by Executive	Forfeit	3 months from date of termination
Termination without Cause	Forfeit	1 year from date of termination (or 90 days for certain options granted prior to 2002)
Involuntary Termination by AmerisourceBergen within 2 Years of Change in Control	Restrictions Lapse on Stock/Options Vest	1 year from date of termination
Death	Restrictions Lapse on Stock/Forfeit Options	1 year from date of termination
Disability	Restrictions Lapse on Stock/Forfeit Options	1 year from date of termination
Retirement (for awards granted prior to August 10, 2004)	Forfeit	3 months from date of termination
Voluntary Retirement (for awards granted on or after August 10, 2004 but prior to February 19, 2009)	Forfeit	3 years from date of termination
Voluntary Retirement (for awards granted on or after February 19, 2009)	Restricted Stock and Options continue to vest to the extent and according to the schedule set forth in the applicable award agreement	Expires at the end of the stated term in the applicable award agreement





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**CERTAIN TRANSACTIONS**

**What is our policy with respect to transactions with related persons?**

We have a written Related Persons Transactions Policy. The Audit and Corporate Responsibility Committee must approve or ratify any transaction, arrangement or relationship exceeding \$120,000 in which the company and any related person has a direct or indirect material interest. This policy includes any series of transactions that exceeds \$120,000 in the aggregate in any calendar year. Related persons include:

directors and nominees;

executive officers;

persons controlling more than 5% of our common stock;

the immediate family members of each of these individuals; and

a firm, corporation or other entity in which any of these individuals is employed or is a partner or principal or in which any of these individuals has more than 5% ownership interest.

Related persons must notify the General Counsel in advance of any proposed transaction with us. They must explain principal features of the proposed transaction, including its potential value and benefit to us. The General Counsel will refer all proposed related person transactions exceeding \$120,000 to the Audit and Corporate Responsibility Committee for review.

The Audit and Corporate Responsibility Committee will consider the proposed transaction at its next regularly scheduled meeting. In reviewing the proposed transaction, the committee will take into account those factors it considers appropriate, including the business reasons for the transaction and whether the terms of the transaction are fair to the company and no less favorable than would be provided by an unaffiliated third party. The committee will also consider, if applicable, whether the proposed transaction would impair the independence of a director or present an improper conflict of interest for directors, nominees or executive officers. Directors with an interest in any proposed transaction will not vote on the proposed transaction. The committee will review and approve annually any ongoing related person transactions.

In fiscal year 2008, AmerisourceBergen was not a party to any related person transaction as described in Item 404 of SEC Regulation S-K or that required approval under our Related Persons Transactions Policy.

**What is our policy with regard to loans to directors or officers?**

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Our corporate governance principles prohibit us from making any personal loans or extensions of credit to directors or executive officers. We do not have any programs under which we extend loans to either directors or officers.

### **Transactions with Management**

The stepfather of Mr. Collis's wife is employed as an information technology manager for the AmerisourceBergen Specialty Group. He received approximately \$93,500 in compensation in fiscal year 2008.

### **BENEFICIAL OWNERSHIP OF COMMON STOCK**

This table shows how much of our outstanding common stock is beneficially owned by each of the named executive officers (who comprised all of the executive officers of AmerisourceBergen as of the date shown), each of the directors, and all directors and executive officers as a group as of November 28, 2008. The table also shows how much of our outstanding common stock is beneficially owned by owners of more than 5% of our outstanding common stock.

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According to the rules adopted by the SEC, a person beneficially owns securities if the person has or shares the power to vote them or to direct their investment or has the right to acquire beneficial ownership of such securities within 60 days through the exercise of an option, warrant, right of conversion of a security or otherwise. Except as otherwise noted, the beneficial owners listed have sole voting and investment power with respect to the shares shown. An asterisk in the Percent of Class column indicates beneficial ownership of less than 1%, based on 155,508,213 shares of common stock outstanding as of the close of regular trading on the NYSE on November 28, 2008.

Name and Address of Beneficial Owner (1)	Title of Beneficial Owner	Aggregate Number of Shares Beneficially Owned (2)	Percent of Class
R. David Yost(3)	President and Chief Executive Officer and Director	1,932,225	1.24
Michael D. DiCandilo(3)	Executive Vice President and Chief Financial Officer, AmerisourceBergen Corporation, and Chief Operating Officer, AmerisourceBergen Drug Corporation	572,566	*
Steven H. Collis(3)	Executive Vice President, AmerisourceBergen Corporation, and President, AmerisourceBergen Specialty Group	436,599	*
Jeanne B. Fisher(3)	Senior Vice President, Human Resources	114,196	*
John G. Chou(3)	Senior Vice President, General Counsel and Secretary	58,361	*
Charles H. Cotros(4)	Director	42,831	*
Richard W. Gochnauer(4)	Director	1,786	*
Richard C. Gozon(4)	Director	126,338	*
Edward E. Hagenlocker(4)	Director	89,242	*
Jane E. Henney, M.D.(4)	Director	27,697	*
Michael J. Long(4)	Director	11,874	*
Henry W. McGee(4)	Director	28,954	*
J. Lawrence Wilson(4)	Director	98,809	*
All directors and executive officers as a group (13 people)(5)		3,541,478	2.28
Pzena Investment Management LLC			
120 W. 45 <sup>th</sup> Street, 20 <sup>th</sup> Floor			
New York, NY 10036		10,093,314	6.49
AXA			
25 Ave Matignon			
Paris, France		8,519,580	5.48
Vanguard Group Inc.			
P.O. Box 2600 V26			
Valley Forge, PA 19482-2600		7,966,161	5.12

\* Less than 1.0%

(1) The address for each named executive officer and director is: AmerisourceBergen Corporation, 1300 Morris Drive, Chesterbrook, Pennsylvania 19087.

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- (2) Based on information furnished to the company by the respective stockholders or obtained by the company from sources we believe are reliable. The company believes that, unless otherwise indicated, the beneficial owners have sole voting and investment power over the shares shown opposite their names.
- (3) Common stock and the percent of class listed as being beneficially owned by the company's named executive officers include outstanding options to purchase common stock which are exercisable within 60 days of November 28, 2008, as follows: Mr. Yost, 1,157,308 shares; Mr. DiCandilo, 538,733 shares; Mr. Collis, 416,234 shares; Ms. Fisher, 105,173 shares; and Mr. Chou, 53,444 shares.
- (4) Common stock and the percent of class listed as being beneficially owned by the company's non-employee directors include outstanding options to purchase common stock which are exercisable within 60 days of November 28, 2008, as follows: Mr. Cotros, 31,647 shares; Mr. Gochnauer, 0 shares; Mr. Gozon, 104,796 shares; Mr. Hagenlocker, 76,184 shares; Dr. Henney, 18,259 shares; Mr. Long, 7,106 shares, Mr. McGee, 21,638 shares; and Mr. Wilson, 63,921 shares.
- (5) Includes all directors and named executive officers.

**Table of Contents****EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth information as of September 30, 2008 regarding all of the company's existing compensation plans pursuant to which equity securities are authorized for issuance to employees and non-employee directors.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by security holders	12,306,437	\$ 37.00	8,103,972(1)
Equity compensation plans not approved by security holders		N/A	
<b>Total</b>	<b>12,306,437</b>	<b>\$ 37.00</b>	<b>8,103,972</b>

- (1) Includes 7,911,723 shares available for future issuances of stock awards under the AmerisourceBergen Corporation 2002 Management Stock Incentive Plan, 161,897 shares available for future issuance of options under the non-employee directors' stock option plan and 30,352 shares available for future issuance of restricted common stock under the non-employee directors' restricted stock plan.

**STOCKHOLDER PROPOSAL****TO REDEEM AMERISOURCEBERGEN'S POISON PILL**

*(Item 4 on the Proxy Card)*

Kenneth Steiner, 14 Stoner Ave., 2M, Great Neck, NY 1102, has notified us that his designee intends to introduce the following resolution at the Annual Meeting. As of December 22, 2008, Mr. Steiner held 1,200 shares of our common stock. In accordance with the proxy regulations, the following is the complete text of the proposal, which is reproduced as submitted to us.

**4 Redeem Our Poison Pill**

RESOLVED: Shareholders request that our Board take the steps to redeem our poison pill promptly after the annual meeting. Currently our management is protected by a poison pill that triggers at a low 15% threshold. A poison pill has the potential to give our directors increased job security if our stock price declines significantly due to our directors' poor performance.

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Poison pills prevent shareholders, and the overall market, from exercising their right to discipline management by turning it out. They entrench the current management, even when it is doing a poor job. They water down shareholders' votes and deprive them of a meaningful voice in corporate affairs. *Take on the Street* by Arthur Levitt, SEC Chairman, 1993-2001

That is the key negative of poison pills - instead of protecting investors, they can also preserve the interests of management deadwood as well. Morningstar.com, Aug. 15, 2003

### Statement of Kenneth Steiner

The merits of this Poison Pill proposal should be considered in the context of the need to initiate improvements in our company's corporate governance and individual director performance. For instance in 2008 the following governance and performance issues were identified:

The Corporate Library <http://www.thecorporatelibrary.com>, an independent investment research firm, rated our company Very High Concern in takeover defenses. Our company has a classified board

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(3-year director terms). This makes it very difficult to replace underperforming directors. Plus an 80%-vote was required to remove a director for cause. Additionally, there is a poison pill in place. The combination of these mechanisms lowers board accountability to shareholders.

The Corporate Library rated our company **high** in Governance Risk Assessment.

Seven of our directors were designated as **Accelerated Vesting** directors by The Corporate Library. This was due to their speeding up the vesting of stock options in order to avoid recognizing the related cost.

Additionally:

We had no shareholder right to:

- 1) Annual election of each director.
- 2) Call a special meeting.
- 3) Act by written consent.
- 4) Majority vote standard for election of our directors.
- 5) Complete simple majority vote standard.
- 6) Cumulative voting.

The above concerns shows there is need for improvement. Please encourage our board to respond positively to this proposal:

### **Redeem Our Poison Pill**

**Yes on 4**

## **AMERISOURCEBERGEN CORPORATION'S STATEMENT IN OPPOSITION TO THE STOCKHOLDER PROPOSAL**

We recommend a vote against the proposal because we believe that our stockholder rights agreement, commonly known as a **poison pill**, is an important tool for preserving and maximizing the company's value for all stockholders. It also enables the Board to guard against unfair or coercive takeover offers or threats.

After careful and thorough review, our Board concluded that it was in the best interests of the stockholders to adopt the rights agreement on August 27, 2001. Unless extended by our Board, the rights agreement will expire on August 27, 2011. The rights agreement is not intended to and will not prevent a takeover of our company. It does not diminish the fiduciary obligations of the Board to consider potential offers. Rather,

the rights agreement permits the Board to respond in an orderly and considered fashion to unsolicited takeover bids, including those that are potentially manipulative or unfair to our stockholders. The rights agreement is designed to encourage potential acquirers to negotiate directly with our Board. In the context of an unsolicited takeover bid, our Board must gather, review and act on a significant amount of information on a timely basis to ensure that any transaction is fair to our stockholders. The rights agreement preserves flexibility for our Board to evaluate the adequacy of an offer, negotiate with the bidder, investigate possible alternatives and take the steps necessary to maximize stockholder value if there is to be a sale of the company. We believe that the rights agreement would increase the Board's bargaining power when negotiating a potential transaction or working to formulate or pursue a superior alternative.

Several studies of U.S. public companies have validated the economic benefits of stockholder rights agreements. Studies, such as those by Shark Repellent, Georgeson & Co. and J.P. Morgan, have shown that, in completed mergers and acquisition transactions, companies with rights agreements in place have received higher premiums than those without rights agreements. These findings suggest that rights agreements serve their principal objectives, which are to protect against inadequate offers and abusive takeover tactics and to enhance



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the Board's ability to achieve a higher value for stockholders. These findings are consistent with the view that the existence of a rights agreement has a favorable impact on stockholder value.

In response to the stockholder proposal, our Governance and Nominating Committee evaluated our rights agreement. To assist in its evaluation, the committee consulted with outside counsel and our primary investment bankers. The committee's evaluation included a thorough review of the rights agreement, as a whole, and each of its operative provisions in the context of the current market environment and other protections against abusive takeovers that are available to the company. As a result of the committee's evaluation, our Board determined, upon the committee's recommendation, that the company should oppose the proposal.

The Board does not believe that it is appropriate to redeem the rights agreement at this time, particularly in light of the challenging capital market conditions of recent months. Market valuations are low relative to historical returns. To redeem our rights agreement now would remove an important mechanism that facilitates Board consideration of unsolicited offers and may leave the company vulnerable to unfair or coercive takeover attempts and opportunistic suitors. In the Board's view, the rights agreement can ultimately serve to maximize the company's value for all stockholders.

In addition, we note that the proposal refers to our company's corporate governance performance. Our Board examines our corporate governance principles annually and makes changes as it deems appropriate. In particular, the supporting statement states that the company does not have a majority vote standard for the election of directors. This is incorrect. As more fully described on page 15 of this proxy statement, in November 2007, our Board adopted amendments to our bylaws and corporate governance principles to provide for a majority voting standard for the election of directors in uncontested elections and to implement a director resignation policy in the event that an incumbent director does not receive the required votes for re-election. We also note that, as part of its overall governance rating, The Corporate Library rates us as low concern with respect to Board composition, compensation and accounting. We believe that our corporate governance is effective and consistently of high quality.

### **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE**

**AGAINST**

**THE STOCKHOLDER PROPOSAL**

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers as well as persons who beneficially own more than 10 percent of our common stock to file with the SEC reports of ownership and changes in beneficial ownership of our common stock. Directors, executive officers and greater than 10 percent stockholders are required to furnish us with copies of all Section 16(a) forms they file. We believe that during fiscal year 2008 all of our directors and executive officers complied with these requirements.

### **AVAILABILITY OF FORM 10-K**

**Copies of our Annual Report on Form 10-K for the fiscal year ended September 30, 2008 (without exhibits or documents incorporated by reference therein), are available without charge to stockholders upon written request to Corporate and Investor Relations Department, AmerisourceBergen Corporation, 1300 Morris Drive, Chesterbrook, Pennsylvania 19087, by calling (610) 727-7000 or via the Internet at [www.amerisourcebergen.com](http://www.amerisourcebergen.com).**

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**STOCKHOLDER PROPOSALS FOR NEXT YEAR'S PROXY STATEMENT AND  
STOCKHOLDER COMMUNICATIONS**

***Stockholder Proposals for Inclusion in 2010 Proxy Statement.*** Any proposal of a stockholder that is intended to be presented by such stockholder at AmerisourceBergen's 2010 Annual Meeting of Stockholders must be submitted in writing by September 11, 2009 in order to be considered for inclusion in the 2010 Proxy Statement and the form of proxy relating to the 2010 meeting. All proposals should be submitted to: John G. Chou, Secretary, AmerisourceBergen Corporation, 1300 Morris Drive, Chesterbrook, Pennsylvania 19087. Stockholder proposals must comply with SEC Rule 14a-8, Delaware law and our bylaws.

***Other Stockholder Proposals for Presentation at the 2010 Annual Meeting.*** Stockholders of record who do not submit a proposal for inclusion in AmerisourceBergen's proxy materials under SEC Rule 14a-8, but who instead intend to submit a proposal at the 2010 Annual Meeting must provide written notice in accordance with our bylaws. Such notice should be received no earlier than November 20, 2009 and no later than December 21, 2009. Such notice should be addressed to: John G. Chou, Secretary, AmerisourceBergen Corporation, 1300 Morris Drive, Chesterbrook, Pennsylvania 19087 and include the information set forth in our bylaws. The proxy solicited by our Board of Directors for the 2010 Annual Meeting will confer discretionary authority with respect to any such proposal.

***Other Stockholder Communications.*** Stockholder communications may be submitted at any time in writing to: John G. Chou, Secretary, AmerisourceBergen Corporation, 1300 Morris Drive, Chesterbrook, Pennsylvania 19087. Stockholder communications are communications from any stockholder to the Board of Directors, any committee or any director on matters that relate reasonably to their respective duties and responsibilities. Stockholder communications do not include stockholder proposals (discussed above) and stockholder recommendations for director nominee candidates (discussed under *Process for Identifying and Evaluating Director Nominees and for Submitting Recommendations* at page 16). AmerisourceBergen's Secretary will determine, in his good faith judgment, which stockholder communications will be relayed to the Board of Directors, any committee or any director.

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**Appendix A**

**AMERISOURCEBERGEN CORPORATION**

**MANAGEMENT INCENTIVE PLAN**

**1. Background and Purpose.**

(a) *Background.* This AmerisourceBergen Corporation Management Incentive Plan (the *Plan*), as adopted by the shareholders of AmerisourceBergen Corporation effective February 19, 2009 (the *Effective Date*), is intended to be an amendment and restatement of the AmerisourceBergen Corporation 2002 Management Stock Incentive Plan (the *2002 Plan*), which was the result of the merger, effective April 23, 2002, of the Bergen Brunswig Corporation 1999 Management Stock Incentive Plan with and into the AmeriSource Health Corporation 2001 Stock Option Plan (collectively, with the Bergen Brunswig Corporation 1999 Management Stock Incentive Plan and the AmerisourceBergen Corporation 2002 Management Stock Incentive Plan, the *Prior Plans*). This document applies to all grants made under this Plan on or after the Effective Date. Each grant made under the Prior Plans will remain subject to the terms of the 2002 Plan as in existence immediately prior to the Effective Date; provided, however, that upon the forfeiture or lapse of any right granted under the Prior Plans, the shares underlying such right shall again be available for issuance pursuant to this Plan.

(b) *Purpose.* The purpose of the Plan is to provide designated employees, directors, independent contractors and consultants of AmerisourceBergen Corporation (the *Company*) and its subsidiaries with the opportunity to receive grants of stock awards and other incentive compensation as provided in the Plan. The Company believes that the Plan will encourage the participants to contribute materially to the growth of the Company, thereby benefiting the Company's shareholders, and will align the economic interests of the participants with those of the shareholders.

**2. Definitions.** For purposes of the Plan, the following terms shall be defined as follows:

*Administrator* means the individual or individuals, if any, to whom the Committee delegates authority under the Plan in accordance with Section 3(d). If no delegation of authority is in effect, the Committee shall serve as the Administrator.

*Award* means an award made pursuant to the terms of the Plan to an Eligible Individual in the form of Stock Options, Stock Appreciation Rights, Stock Awards, Restricted Stock Unit Awards, Performance Share Awards, Section 162(m) Awards or other awards determined by the Committee.

*Award Agreement* means a written agreement or certificate granting an Award. An Award Agreement shall contain such terms and conditions as the Committee deems appropriate and that are not inconsistent with the terms of the Plan. The Administrator may in its discretion require that an Award Agreement be executed by the Participant to whom the relevant Award is made.

*Board* means the Board of Directors of the Company.

A *Change in Control* shall be deemed to have occurred if:

- (i) Any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes a beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 35% of the voting power of the then outstanding securities of the Company, and such person owns more aggregate voting power of the Company's then outstanding securities entitled to vote generally in the election of directors than any other person;

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- (ii) The shareholders of the Company approve (or, if shareholder approval is not required, the Board approves) an agreement providing for (x) the merger or consolidation of the Company with another corporation where the shareholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, shares entitling such shareholders to 50% or more of all votes to which all shareholders of the surviving corporation would be entitled in the election of directors (without consideration of the rights of any class of stock to elect directors by a separate class vote), (y) the sale or other disposition of all or substantially all of the assets of the Company, or (z) a liquidation or dissolution of the Company; or
- (iii) Directors are elected such that a majority of the members of the Board shall have been members of the Board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

*Code* means the Internal Revenue Code of 1986, as amended, and the applicable rulings and regulations thereunder.

*Committee* means the Compensation and Succession Planning Committee of the Board, any successor committee thereto or any other committee appointed by the Board to administer the Plan.

*Common Stock* means the Common Stock of the Company.

*Disability* means eligibility for disability benefits under the terms of the Company's long-term disability plan in effect at the time a Participant becomes disabled.

*Eligible Individuals* means the individuals described in Section 6 who are eligible for Awards under the Plan.

*Exchange Act* means the Securities Exchange Act of 1934, as amended, and the applicable rulings and regulations thereunder.

*Fair Market Value.*

(i) If the Common Stock is publicly traded, then the Fair Market Value per share of Common Stock shall be determined as follows: (x) if the principal trading market for the Common Stock is a national securities exchange or the Nasdaq National Market, the price per share at the close of regular trading on the relevant date (or, if the relevant date is not a day in which the Common Stock is being traded, then the last such date before the relevant date), or (y) if the Common Stock is not principally traded on such exchange or market, the mean between the last reported bid and asked prices of shares of Common Stock on the relevant date (or, if the relevant date is not a date upon which a sale was reported, as reported on Nasdaq or, if not so reported, as reported by the National Daily Quotation Bureau, Inc. or as reported in a customary financial reporting service, as applicable, then the last such date before the relevant date) and as the Committee determines.

(ii) If the Common Stock is not publicly traded or, if publicly traded, is not subject to reported transactions or bid or asked quotations as set forth above, the Fair Market Value per share shall be as determined by the Committee.

*Incentive Stock Option* means a Stock Option that is an incentive stock option within the meaning of Section 422 of the Code and designated by the Committee as an Incentive Stock Option in an Award Agreement.

*Nonqualified Stock Option* means a Stock Option that is not an Incentive Stock Option.

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*Parent* means any corporation that is a parent corporation within the meaning of Section 424(e) of the Code with respect to the relevant entity.

*Participant* means an Eligible Individual to whom an Award has been granted under the Plan.

*Performance Period* means a fiscal year of the Company or such other period that may be specified by the Committee in connection with the grant of a Section 162(m) Award.

*Performance Share Award* means a conditional Award of shares of Common Stock granted to an Eligible Individual pursuant to Section 12 hereof.

*Restricted Stock Unit* means a Common Stock-equivalent unit granted under the Plan and described in Section 11 hereof.

*Section 162(m) Award* means an Award described in Section 14 hereof.

*Section 162(m) Participant* means, for a given fiscal year of the Company, any Participant designated by the Committee by not later than 90 days following the start of such year as a Participant (or such other time as may be required or permitted by Section 162(m) of the Code) whose compensation for such fiscal year may be subject to the limit on deductible compensation imposed by Section 162(m) of the Code.

*Stock Appreciation Right* means an Award to receive all or some portion of the appreciation on shares of Common Stock granted to an Eligible Individual pursuant to Section 9 hereof.

*Stock Award* means an Award of shares of Common Stock granted to an Eligible Individual pursuant to Section 10 hereof.

*Stock Option* means an Award to purchase shares of Common Stock granted to an Eligible Individual pursuant to Section 8 hereof.

*Subsidiary* means (i) any corporation which is a subsidiary corporation within the meaning of Section 424(f) of the Code with respect to the Company or (ii) any other corporation or other entity in which the Company, directly or indirectly, has an equity or similar interest and which the Administrator designates as a Subsidiary for the purposes of the Plan.

*Substitute Award* means an Award granted upon assumption of, or in substitution for, outstanding awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock.



*Voluntary Retirement* means any voluntary termination of employment by a Participant who was, at the time of grant of any applicable Award and immediately prior to such termination of employment, an employee of the Company or any Subsidiary after reaching age sixty-two (62) and completing sixty (60) full months of continuous service with the Company and/or its Subsidiaries.

### **3. Administration of the Plan.**

(a) *Power and Authority of the Committee.* The Plan shall be administered by the Committee, which shall have full power and authority, subject to the express provisions hereof, (i) to select Participants from the Eligible Individuals, (ii) to make Awards in accordance with the Plan, (iii) to determine the number of shares of Common Stock subject to each Award or the cash amount payable in connection with an Award, (iv) to determine the terms and conditions of each Award, including, without limitation, those related to vesting, forfeiture, payment and exercisability, and the effect, if any, of a Participant's termination of employment with the Company or,

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subject to Section 18 hereof, of a Change in Control on the outstanding Awards granted to such Participant, and including the authority to amend the terms and conditions of an Award after the granting thereof to a Participant in a manner that is not prejudicial to the rights of such Participant in such Award, (v) to provide in an Award Agreement for forfeiture of all or part of an Award, whether or not such Award has become exercisable, nonforfeitable or earned or has previously been exercised, as the case may be, and to determine the terms and conditions of such forfeiture, which terms and conditions may include, but are not limited to, non-competition and non-solicitation requirements and/or conditions requiring the repayment to the Company of the vested and/or previously exercised portion of any Award; (vi) to determine whether a Participant has experienced a Triggering Event as defined in Section 15; (vii) to specify and approve the provisions of the Award Agreements delivered to Participants in connection with their Awards, (viii) to interpret any Award Agreement delivered under the Plan, (ix) to prescribe, amend and rescind rules and procedures relating to the Plan, (x) to vary the terms of Awards to take account of tax, securities law and other regulatory requirements of various states or foreign jurisdictions, (xi) subject to the provisions of the Plan and subject to such additional limitations and restrictions as the Committee may impose, to delegate to one or more officers at the Company some or all of its authority under the Plan, and (xii) to make all other determinations and to formulate such procedures as may be necessary or advisable for the administration of the Plan.

(b) *Plan Construction and Interpretation.* The Committee shall have full power and authority, subject to the express provisions hereof, to construe and interpret the Plan.

(c) *Determinations of Committee Final and Binding.* All determinations by the Committee in carrying out and administering the Plan and in construing and interpreting the Plan shall be final, binding and conclusive for all purposes and upon all persons interested herein.

(d) *Delegation of Authority.* The Committee may, but need not, from time to time delegate some or all of its authority under the Plan to an Administrator consisting of one or more members of the Committee or of one or more officers of the Company. The Committee may also delegate its authority to make and set the terms and conditions of Awards under the Plan to the Company's Chief Executive Officer; provided, however, that if the Committee so delegates its authority, the Chief Executive Officer shall not have the authority to make Awards (i) to any Eligible Individual respecting more than 50,000 shares of Common Stock in any calendar year, (ii) to all Eligible Individuals respecting more than 250,000 shares of Common Stock in the aggregate in any calendar year or (iii) to Eligible Individuals, who on the date of the Award are (A) subject to the reporting rules under Section 16(a) of the Exchange Act, (B) Section 162(m) Participants or (C) officers of the Company who are delegated authority by the Committee hereunder. In addition, the Committee may delegate to the Administrator, the Chief Executive Officer and/or such other appropriate officer of the Company its authority to determine whether a Triggering Event (as defined in Section 15) has occurred and the extent to which the consequences of Section 15(a) shall apply, provided that only the Committee may determine whether a Triggering Event has occurred and the extent to which the consequences of Section 15(a) shall apply with respect any Participant who is (i) subject to the reporting rules under Section 16(a) of the Exchange Act, (ii) a Section 162(m) Participant or (iii) an officer of the Company who is delegated authority by the Committee hereunder. Any delegation hereunder shall be subject to the restrictions and limits that the Committee specifies at the time of such delegation or thereafter. Nothing in the Plan shall be construed as obligating the Committee to delegate authority to an Administrator, and the Committee may at any time rescind the authority delegated to an Administrator appointed hereunder or appoint a new Administrator. At all times, the Administrator appointed under this Section 3(d) shall serve in such capacity at the pleasure of the Committee. Any action undertaken by the Administrator in accordance with the Committee's delegation of authority shall have the same force and effect as if undertaken directly by the Committee, and any reference in the Plan to the Committee shall, to the extent consistent with the terms and limitations of such delegation, be deemed to include a reference to the Administrator.

(e) *Liability of Committee.* Neither any member of the Committee nor the Administrator shall be liable for anything whatsoever in connection with the administration of the Plan except such person's own willful

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misconduct. Under no circumstances shall any member of the Committee or the Administrator be liable for any act or omission of any other member of the Committee. In the performance of its functions with respect to the Plan, the Committee and the Administrator shall be entitled to rely upon information and advice furnished by the Company's officers, the Company's accountants, the Company's counsel and any other party the Committee deems necessary, and no member of the Committee or the Administrator shall be liable for any action taken or not taken in reliance upon any such advice.

**4. Duration of Plan.** The Plan shall remain in effect until terminated by the Board and thereafter until all Awards granted under the Plan are satisfied by the issuance of shares of Common Stock or the payment of cash or are terminated under the terms of the Plan or under the Award Agreement entered into in connection with the grant thereof. Notwithstanding the foregoing, no Awards may be granted under the Plan after February 18, 2019.

**5. Shares of Stock Subject to the Plan.** Subject to adjustment as provided in Section 17(b) hereof, the number of shares of Common Stock that may be issued under the Plan pursuant to Awards (including Awards granted under the Prior Plans before the Effective Date, February 19, 2009, of this amended, restated and renamed Plan) shall not exceed, in the aggregate, 43,300,000 shares (which number includes shares of Common Stock that have been previously issued hereunder or pursuant to the Prior Plans, including shares of Common Stock that remain subject to forfeiture or repurchase by the Company, shares of Common Stock reserved for issuance in connection with the exercise or settlement of outstanding Awards, and shares of Common Stock available for issuance in respect of new Awards) (the *Section 5 Limit*), of which the number of shares of Common Stock that may be issued under the Plan pursuant to Incentive Stock Options may not exceed, in the aggregate, 7,400,000 and the number of shares of Common Stock that may be issued under the Plan in respect of Stock Awards, Restricted Stock Units and Performance Share Awards may not exceed, in the aggregate, 2,000,000. Such shares may be either authorized but unissued shares, treasury shares or any combination thereof. For purposes of determining the number of shares that remain available for issuance under the Plan, the following rules shall apply:

(a) the number of shares subject to outstanding Awards, including Awards made under the Prior Plans, shall be charged against the Section 5 Limit; and

(b) the Section 5 Limit shall be increased by:

(i) the number of shares subject to an Award, including any Award made under the Prior Plans, (or portion thereof) which lapses, expires or is otherwise terminated without the issuance of such shares or is settled by the delivery of consideration other than shares,

(ii) the number of shares tendered to pay the exercise price of a Stock Option or other Award, including Stock Options and Awards made under the Prior Plans, and

(iii) the number of shares withheld from any Award, including any Award made under the Prior Plans, to satisfy a Participant's tax withholding obligations or, if applicable, to pay the exercise price of a Stock Option or other Award, including Stock Options and Awards made under the Prior Plans.

In addition, any shares underlying Substitute Awards shall not be counted against the Section 5 Limit set forth in the first sentence of this Section 5.

**6. Eligible Individuals.**

(a) *Eligibility Criteria.* Awards may be granted by the Committee to individuals ( *Eligible Individuals* ) who are officers or other key employees, directors, independent contractors or consultants of the Company or a Subsidiary with the potential to contribute to the future success of the Company or its Subsidiaries. An individual's status as a member of the Committee or an Administrator will not affect his or her eligibility to participate in the Plan.

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(b) *Maximum Number of Shares per Eligible Individual.* In accordance with the requirements under Section 162(m) of the Code, the limit on grants of Awards to Eligible Individuals in respect of any calendar year commencing on or after January 1, 2009 shall be 300,000 shares of Common Stock; provided, however, that with respect to Awards made under the Plan that are not based on the value or future value of a specified number of shares of Common Stock, the aggregate annual limit will be applied by taking into account the Fair Market Value of such Award expressed as a grant of shares of Common Stock.

**7. Awards Generally.** Awards under the Plan may consist of Stock Options, Stock Appreciation Rights, Stock Awards, Restricted Stock Unit Awards, Performance Share Awards, Section 162(m) Awards or other awards determined by the Committee. The terms and provisions of an Award shall be set forth in a written Award Agreement approved by the Committee and delivered or made available to the Participant as soon as practicable following the date of the award. The vesting, exercisability, payment and other restrictions applicable to an Award (which may include, without limitation, restrictions on transferability or provision for mandatory resale to the Company) shall be determined by the Committee and set forth in the applicable Award Agreement. Notwithstanding the foregoing, the Committee may, at any time at or after grant, accelerate (i) the vesting or payment of any Award, (ii) the lapse of restrictions on any Award or (iii) the date on which any Option or Stock Appreciation Right first becomes exercisable. The date of a Participant's termination of employment for any reason shall be determined in the sole discretion of the Committee. The Committee shall also have full authority to determine and specify in the applicable Award Agreement the effect, if any, that a Participant's termination of employment for any reason will have on the vesting, exercisability, payment or lapse of restrictions applicable to an outstanding Award.

**8. Stock Options.**

(a) *Terms of Stock Options Generally.* Subject to the terms of the Plan and the applicable Award Agreement, each Stock Option shall entitle the Participant to whom such Stock Option was granted to purchase the number of shares of Common Stock specified in the applicable Award Agreement and shall be subject to the terms and conditions established by the Committee in connection with the Award and specified in the applicable Award Agreement. Upon satisfaction of the conditions to exercisability specified in the applicable Award Agreement, a Participant shall be entitled to exercise the Stock Option in whole or in part and to receive, upon satisfaction or payment of the exercise price or an irrevocable notice of exercise in the manner contemplated by Section 8(d) below, the number of shares of Common Stock in respect of which the Stock Option shall have been exercised. Stock Options may be either Nonqualified Stock Options or Incentive Stock Options. Notwithstanding anything contained in the Plan to the contrary and subject to the provisions of Section 15:

(i) *Termination of Employment For Cause.* If a Participant is notified that the Participant will be involuntarily terminated from employment with the Company or any Subsidiary for Cause, then all unexercised stock options subject to any Award Agreement shall be forfeited as of the date of such notice, whether or not then exercisable, except to the extent otherwise specified in the applicable Award Agreement. For purposes of this Section 8, Cause shall mean a determination by the Board that any of the following has occurred: (A) an act or acts of dishonesty by the Participant constituting a felony under applicable law and resulting or intending to result directly or indirectly in gain to or personal enrichment of the Participant at the Company's expense; or (B) a material breach of any provision of subsection (1), (2) or (3) below or any provision of Attachment A.

(1) *Full-Time Employment.* The Participant shall devote his time, attention and effort during regular business hours to the business of the Company and shall not during the term of employment be engaged in any other substantial business activity whether or not such business activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing the Participant from investing his personal assets in businesses which do not compete with the Company in such form or manner as will not require substantial services on the part of the Participant in the operation of the affairs of the companies in which such investments are made. Notwithstanding the foregoing, the Participant may purchase securities in any corporation whose securities are regularly traded; provided,



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however, that such purchases shall not result in his owning beneficially at any time more than one percent (1%) of any class of securities of any corporation engaged in a business competitive with that of the Company.

(2) *Unauthorized Disclosure.* During the term of the Participant's employment with the Company and at anytime thereafter, the Participant shall not, without the written consent of the Board or the Executive Committee, disclose to any person, other than as required by law or court order, or other than to an employee of the Company or any of its affiliated corporations, or other than to a person to whom disclosure is necessary or appropriate in connection with the performance by the Participant of his duties (including but not limited to disclosure to the Company's outside accountants, attorneys or bankers of information properly requested by such persons), any confidential information obtained by Participant while the Participant is in the employ of the Company. For purposes of this Plan, confidential information shall mean any information of the Company that the Company treats as confidential as well as any information that a prudent officer of the Company would consider to be proprietary or confidential to the Company, including without limitation, information with respect to any of the Company's services, customers, suppliers, techniques, patents and patent applications, methods (including manufacturing methods), products, designs, financial projections, industry projections or analyses, planned or pending agreements or future plans; provided, however, that confidential information shall not include any information known generally to the public (other than as a result of unauthorized disclosure by the Participant) or any information of a type not otherwise considered confidential by persons engaged in the same business or a business similar to that conducted by the Company.

(3) *Works For Hire Acknowledgment; Assignment.* The Participant acknowledges that all of the Participant's work on and contributions to the Company's products (the Products), including, without limitation, any and all patterns, designs, artworks and other expressions in any tangible medium (collectively, the Works) are within the scope of the Participant's employment and are a part of the services, duties and responsibilities of the Participant. All of the Participant's work on and contributions to the Works will be rendered and made by the Participant for, at the instigation of, and under the overall direction of the Company, and all of the Participant's said work and contributions, as well as the Works, are and at all times shall be regarded as work made for hire as that term is used in the United States Copyright Laws. Without curtailing or limiting this acknowledgment, the Participant hereby assigns, grants, and delivers exclusively to the Company, as to work on and contribution to the Products pursuant hereto all rights, titles, and interests in and to any such Works, and all copies and versions, including all copyrights and renewals. The Participant will execute and deliver to the Company, or its successors and assigns, such other and further assignments, instruments and documents as it from time to time reasonably may request for the purpose of establishing, evidencing, and enforcing or defending its complete, exclusive perpetual, and worldwide ownership of all rights, titles, and interests of every kind and nature whatsoever, including all copyrights in and to the Works. The Participant hereby constitutes and appoints the Company as its agent and attorney-in-fact, with full power of substitution, to execute and deliver said assignments, instruments or documents as the Participant may fail or refuse to execute and deliver, this power and agency being coupled with an interest and being irrevocable.

(ii) *Voluntary Retirement.* Effective with Awards granted on or after February 19, 2009 and unless otherwise set forth in the applicable Award Agreement, if a Participant terminates employment with the Company or any Subsidiary due to Voluntary Retirement, the Participant's Stock Option shall continue to vest and become exercisable according to the schedule set forth in the applicable Award Agreement.

(iii) *Other Termination of Employment.* Except as otherwise provided above or in an Award Agreement, if a Participant terminates employment with the Company or any Subsidiary for any reason other than for Cause and such Participant has not satisfied the conditions to exercisability specified in the applicable Award Agreement, then the Participant shall forfeit those Stock Options which have not yet become exercisable as of the date of such termination of employment.

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(b) *Exercise Price.* The exercise price per share of Common Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant and set forth in the Award Agreement; provided, however, that the exercise price per share shall be no less than 100% of the Fair Market Value per share on the date of grant. Notwithstanding the foregoing, the exercise price per share of a Stock Option that is a Substitute Award may be less than the Fair Market Value per share on the date of award, provided the requirements of Treas. Reg. § 1.409A-1(b)(5)(v)(D) are met.

(c) *Option Term.* Subject to the provisions of Section 15, the term of each Stock Option shall be fixed by the Committee and set forth in the Award Agreement; provided, however, that a Stock Option shall not be exercisable after the expiration of ten (10) years after the date the Stock Option is granted. Notwithstanding the foregoing and subject to the provisions of Section 15:

(i) *Termination of Employment Without Cause.* If a Participant is notified that the Participant will be involuntarily terminated from employment with the Company or any Subsidiary without Cause, then the term of the Participant's Stock Option shall end on the earlier of: (A) the date set forth in the applicable Award Agreement, (B) one (1) year from the date of the Participant's termination of employment or (C) the expiration of the stated term of the Stock Option.

(ii) *Disability.* If a Participant terminates employment with the Company or any Subsidiary due to Disability, then the term of the Participant's Stock Option shall end on the earlier of: (A) the date set forth in the applicable Award Agreement, (B) one (1) year from the date of the Participant's termination of employment or (C) the expiration of the stated term of the Stock Option.

(iii) *Death.* If a Participant terminates employment with the Company or any Subsidiary due to death, such Participant's estate shall have the right to exercise the Participant's Stock Options for a period ending on the earlier of: (A) the date set forth in the applicable Award Agreement, (B) one (1) year from the date of the Participant's death, or (C) the expiration of the stated term of the Stock Option.

(iv) *Voluntary Termination of Employment.* Except as otherwise provided in Section 8(c)(v) of the Plan, if a Participant terminates employment with the Company or any Subsidiary and such Participant has satisfied the conditions to exercisability specified in the applicable Award Agreement as of the date of such voluntary termination, then the term of the Participant's Stock Options shall end on the earlier of: (A) the date set forth in the applicable Award Agreement, (B) three (3) months from the date of the Participant's termination of employment or (C) the expiration of the stated term of the Stock Option.

(v) *Voluntary Retirement.*

(1) Effective with Awards granted on or after August 10, 2004 but prior to February 19, 2009, if a Participant terminates employment with the Company or any Subsidiary due to Voluntary Retirement, then the term of the Participant's Stock Option shall end on the earlier of the date set forth in the applicable Award Agreement or three (3) years from the date of the Participant's Voluntary Retirement.

(2) Effective with Awards granted on or after February 19, 2009 and unless otherwise set forth in the applicable Award Agreement, if a Participant terminates employment with the Company or any Subsidiary due to Voluntary Retirement, then the term of the Participant's Stock Option shall end on the earlier of: (A) the date set forth in the applicable Award Agreement or (B) the expiration of the stated term of the Stock Option.



(d) *Method of Exercise.* Subject to the provisions of the applicable Award Agreement the exercise price of a Stock Option may be paid in cash or previously owned shares or a combination thereof or in whole or in part through the withholding of shares subject to the Stock Option with a value equal to the exercise price. In accordance with the rules and procedures established by the Administrator for this purpose, the Stock Option may also be exercised through a cashless exercise procedure which is approved by the Administrator involving a broker or dealer approved by the Administrator thereby affording Participants the opportunity to sell

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immediately some or all of the shares underlying the exercised portion of the Stock Option in order to generate sufficient cash to pay the Stock Option exercise price or to satisfy withholding tax obligations related to the Stock Option.

**9. Stock Appreciation Rights.** Stock Appreciation Rights shall be subject to the terms and conditions established by the Committee in connection with the Award thereof and specified in the applicable Award Agreement. Subject to the provisions of Section 15, upon satisfaction of the conditions to the payment specified in the applicable Award Agreement, each Stock Appreciation Right shall entitle a Participant to an amount, if any, equal to the Fair Market Value of a share of Common Stock on the date of exercise over the Stock Appreciation Right exercise price specified in the applicable Award Agreement. At the discretion of the Administrator, payments to a Participant upon exercise of a Stock Appreciation Right may be made in shares of Common Stock, cash or a combination thereof. A Stock Appreciation Right may be granted alone or in addition to other Awards, or in tandem with a Stock Option. If granted in tandem with a Stock Option, a Stock Appreciation Right shall cover the same number of shares of Common Stock as covered by the Stock Option (or such lesser number of shares as the Committee may determine) and shall be exercisable only at such time or times and to the extent the related Stock Option shall be exercisable, and shall have the same term and exercise price as the related Stock Option. Upon exercise of a Stock Appreciation Right granted in tandem with a Stock Option, the related Stock Option shall be canceled automatically to the extent of the number of shares covered by such exercise; conversely, if the related Stock Option is exercised as to some or all of the shares covered by the tandem grant, the tandem Stock Appreciation Right shall be canceled automatically to the extent of the number of shares covered by the Stock Option exercised. Effective with Awards granted on or after February 19, 2009 and to the extent set forth in the applicable Award Agreement, if a Participant terminates employment with the Company or any Subsidiary due to Voluntary Retirement, the Participant's Stock Appreciation Right, if any, shall continue to vest and become exercisable according to the schedule set forth in the applicable Award Agreement and the term of such Stock Appreciation Right shall end on the earlier of the date set forth in the applicable Award Agreement or the expiration of the stated term of the Stock.

**10. Stock Awards.** Stock Awards shall consist of one or more shares of Common Stock granted to an Eligible Individual, and shall be subject to the terms and conditions established by the Committee in connection with the Award and specified in the applicable Award Agreement (including, without limitation, the provisions of Section 15); provided, however, that each Stock Award shall be subject to at least one of the following minimum repurchase or lapse restrictions: (a) a performance-based repurchase or lapse restriction that expires not less than one (1) year following the date of grant or (b) a time-based repurchase or lapse restriction that expires based on the Eligible Individual remaining employed or otherwise providing services to the Company for not less than three (3) years from the date the Stock Award is made. Notwithstanding anything herein to the contrary, the Committee shall be permitted to waive any repurchase or lapse restriction applicable to any Stock Award. Effective with Awards granted on or after February 19, 2009 and to the extent set forth in the applicable Award Agreement, if a Participant terminates employment with the Company or any Subsidiary due to Voluntary Retirement, the repurchase and lapse restrictions on such Participant's Stock Award, if any, shall continue to lapse according to the schedule set forth in the applicable Award Agreement.

**11. Restricted Stock Units.** The Committee may from time to time grant Awards to Eligible Individuals denominated in Common Stock-equivalent units in such amounts and upon such terms as the Committee shall determine and as set forth in an applicable Award Agreement (including, without limitation, the provisions of Section 15); provided, however, that each Restricted Stock Unit Award shall be subject to at least one of the following minimum repurchase or lapse restrictions: (a) a performance-based repurchase or lapse restriction that expires not less than one (1) year following the date of grant or (b) a time-based repurchase or lapse restriction that expires based on the Eligible Individual remaining employed or otherwise providing services to the Company for not less than three (3) years from the date the Restricted Stock Unit Award is made. Notwithstanding anything herein to the contrary, the Committee shall be permitted to waive any repurchase or lapse restriction applicable to any Restricted Stock Unit Award. Restricted Stock Units granted to a Participant shall be credited to a bookkeeping reserve account solely for accounting purposes and shall not require a

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segregation of any of the Company's assets. An Award of Restricted Stock Units may be settled in Common Stock, cash, or in any combination of Common Stock and cash; provided, however, that a determination to settle an Award of Restricted Stock Units in whole or in part in cash shall be made only with approval of the Board. Except as otherwise provided in the applicable Award Agreement, the grantee shall not have the rights of a shareholder with respect to any Common Stock represented by a Restricted Stock Unit. Effective with Awards granted on or after February 19, 2009 and to the extent set forth in the applicable Award Agreement, if a Participant terminates employment with the Company or any Subsidiary due to Voluntary Retirement, the repurchase and lapse restrictions on such Participant's Restricted Stock Unit Award, if any, shall continue to lapse according to the schedule set forth in the applicable Award Agreement.

**12. Performance Share Awards.** Performance Share Awards shall be evidenced by an Award Agreement in such form and containing such terms and conditions as the Committee deems appropriate and which are not inconsistent with the terms of the Plan (including, without limitation, the provisions of Section 15). Each Award Agreement shall set forth the number of shares of Common Stock to be earned by a Participant upon satisfaction of certain specified performance criteria and subject to such other terms and conditions as the Committee deems appropriate. Payment in settlement of a Performance Share Award shall be made as soon as practicable following the conclusion of the applicable performance period, or at such other time as the Administrator shall determine, in shares of Common Stock, in an equivalent amount of cash or in a combination of Common Stock and cash, as the Administrator shall determine. Effective with Awards granted on or after February 19, 2009 and to the extent set forth in the applicable Award Agreement, if a Participant terminates employment with the Company or any Subsidiary due to Voluntary Retirement, with respect to any Performance Share Award granted to such Participant, such Participant shall be considered to have remained employed until the end of the applicable performance period for purposes of determining whether such Performance Share Award was partially or fully earned.

**13. Other Awards.** The Committee shall have the authority to specify the terms and provisions of other forms of equity-based or equity-related Awards not described above which the Committee determines to be consistent with the purpose of the Plan and the interests of the Company, which Awards may provide for cash payments based in whole or in part on the value or future value of Common Stock, for the acquisition or future acquisition of Common Stock, or any combination thereof. Other Awards shall also include cash payments (including the cash payment of dividend equivalents) under the Plan which may be based on one or more criteria determined by the Committee which are unrelated to the value of Common Stock and which may be granted in tandem with, or independent of, other Awards under the Plan.

### **14. Section 162(m) Awards.**

(a) *Terms of Section 162(m) Awards Generally.* In addition to any other Awards under the Plan, the Company may make Awards that are intended to qualify as "qualified performance-based compensation" for purposes of Section 162(m) of the Code ("Section 162(m) Awards"). Section 162(m) Awards may consist of Stock Options, Stock Appreciation Rights, Stock Awards, Performance Share Awards or Other Awards the vesting, exercisability and/or payment of which is conditioned upon the attainment for the applicable Performance Period of specified performance targets related to designated performance goals for such period selected by the Committee from among the performance goals specified in Section 14(b) below. Section 162(m) Awards will be made in accordance with the procedures specified in applicable Treasury regulations for compensation intended to be "qualified performance-based compensation." Section 162(m) Awards may be subject to the provisions of Section 15.

(b) *Performance Goals.* For purposes of this Section 14, performance goals shall be limited to one or more of the following: (i) net revenue, (ii) net earnings, (iii) operating earnings or income, (iv) absolute and/or relative return on equity or assets, (v) earnings per share, (vi) cash flow, (vii) pretax profits, (viii) earnings growth, (ix) revenue growth, (x) book value per share, (xi) stock price and (xii) performance relative to peer companies, each of which may be established on a corporate-wide basis or established with respect to one or more operating units, divisions, acquired businesses, minority investments, partnerships or joint ventures.



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(c) *Other Performance-Based Compensation.* The Committee's decision to make, or not to make, Section 162(m) Awards within the meaning of this Section 14 shall not in any way prejudice the qualification of any other Awards as performance based compensation under Section 162(m). In particular, Awards of Stock Options may, pursuant to applicable regulations promulgated under Section 162(m), be qualified as performance-based compensation for Section 162(m) purposes without regard to this Section 14.

**15. Special Forfeiture and Repayment Rules.**

(a) With respect to Awards made on or after February 19, 2009, in the event the Committee or its delegate determines in its sole discretion that a Triggering Event (as defined in Section 15(b) below) has occurred with respect to a Participant and unless otherwise set forth in the applicable Award Agreement, then:

(i) Provided the application of this Section 15(a)(i) has not been waived by the Committee or its delegate, any (A) outstanding Stock Option and/or Stock Appreciation Right then held by the Participant (or his permitted transferee), whether or not vested and exercisable, (B) outstanding Stock Awards and/or Restricted Stock Unit Awards granted to the Participant as to which the restrictions have not lapsed (or, with respect to Restricted Stock Unit Awards, restrictions have lapsed but the shares of Common Stock have not been delivered), and/or (C) Performance Share Awards and/or Section 162(m) Awards as to which the applicable performance period has not expired or the applicable performance period has expired but such Award has not yet been paid, will immediately and automatically be forfeited and such Participant (or his permitted transferee) will have no further rights with respect to that Award; and

(ii) Provided the application of this Section 15(a)(ii) has not been waived by the Committee or its delegate, if the Participant (or his permitted transferee) exercised a Stock Option or Stock Appreciation Right within the 12-month period immediately prior to the date of the acts or omissions that gave rise to such Triggering Event or anytime thereafter, within 10 days of receiving written notice from the Company that a Triggering Event has occurred, the applicable Participant shall pay to the Company an amount equal to the product of the number of shares of Common Stock as to which the Stock Option or Stock Appreciation Right was exercised, multiplied by the excess, if any, of the Fair Market Value per share of Common Stock on the date of exercise over the per share exercise price of that Stock Option or Stock Appreciation Right.

(iii) Provided the application of this Section 15(a)(iii) has not been waived by the Committee or its delegate, if restrictions imposed on Stock Awards and/or Restricted Stock Unit Awards have lapsed (and, with respect to Restricted Stock Unit Awards, the shares of Common Stock have been delivered to the Participant) within the 12-month period immediately prior to the date of the acts or omissions that gave rise to such Triggering Event or anytime thereafter, within 10 days of receiving written notice from the Company that a Triggering Event has occurred, the applicable Participant shall deliver to the Company a number of unrestricted shares of Common Stock equal to the number of shares of Common Stock (or Common Stock-equivalent units in the case of Restricted Stock Unit Awards) as to which restrictions have so lapsed during such 12-month period; provided that if, at the time delivery of the shares of Common Stock by the Participant is required, such Participant cannot deliver a number of unrestricted shares of Common Stock equal to the number of shares of Common Stock (or Common Stock-equivalent units in the case of Restricted Stock Unit Awards) as to which restrictions have so lapsed during such 12-month period, in addition to the delivery of the number of unrestricted shares of Common Stock by such Participant at such time, such Participant shall be required to pay to the Company an amount equal to the product of the number of such shares of Common Stock (or Common Stock-equivalent units in the case of Restricted Stock Unit Awards) as to which restrictions have so lapsed during such 12-month period (less the number of shares of Common Stock contemporaneously delivered by the Participant to the Company), multiplied by the excess, if any, of the Fair Market Value of one share of Common Stock as of the date such restrictions lapsed over the per share purchase price paid by the Participant for such shares (or Common Stock-equivalent units), if any.

(iv) Provided the application of this Section 15(a)(iv) has not been waived by the Committee or its delegate, if, with respect to Performance Share Awards with an applicable performance period which ended



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within the 12-month period immediately prior to the date of the acts or omissions that gave rise to such Triggering Event or anytime thereafter, the specified performance targets for such performance period have been attained and such Performance Share Award was paid to the Participant, within 10 days of receiving written notice from the Company that a Triggering Event has occurred, the applicable Participant shall pay to the Company an amount equal to the product of the number of such shares of Common Stock delivered to the Participant, multiplied by the excess, if any, of the Fair Market Value of one share of Common Stock as of the date such delivery over the per share purchase price paid by the Participant for such shares, if any.

(v) Provided the application of this Section 15(a)(v) has not been waived by the Committee or its delegate, if, with respect to a Section 162(m) Award with an applicable Performance Period which ended within the 12-month period immediately prior to the date of the acts or omissions that gave rise to such Triggering Event or anytime thereafter, the specified performance targets for such Performance Period have been attained and such Section 162(m) Award was paid to the Participant, within 10 days of receiving written notice from the Company that a Triggering Event has occurred, the Participant shall pay to the Company an amount equal to: (A) in the case of a Section 162(m) Award that is a Stock Option, Stock Appreciation Right, Stock Award, Restricted Stock Unit Award or Performance Share Award, the amount to be paid by the Participant to the Company determined pursuant to the provisions of Sections 15(a)(ii)-(iv) as applicable, or (B) otherwise, the amount paid to the Participant with respect to such Section 162(m) Award.

(b) Except as otherwise set forth in an applicable Award Agreement, Triggering Event means, unless waived in writing by the Committee or its delegate, the occurrence of any of the following:

(i) the date during the Repayment Period (as defined below in Section 15(c)) that the Participant's employment with the Company or any Subsidiary was involuntarily terminated by the Company or any Subsidiary for Cause, either as defined herein or pursuant to an employment agreement, consulting agreement or other similar agreement that the Participant has entered into with the Company or any Subsidiary;

(ii) the date during the Repayment Period that the Participant breaches any provision of Sections 8(a)(i)(1)-(3);

(iii) the date during the Repayment Period that the Participant breaches any provision of Attachment A;

(iv) the date during the Repayment Period that the Committee determines that the Participant either (i) engaged in conduct that directly or indirectly resulted in the Company having to restate all or a portion of its financial statements or (ii) engaged in conduct which would constitute a breach of any certificate of compliance or similar attestation/certification signed by the Participant;

(v) the date during the Repayment Period that the Participant has violated any material term of an independent contractor agreement, consulting agreement or other similar agreement that the Participant has entered into with the Company or any Subsidiary;

(vi) the date during the Repayment Period that the Participant disparages or subverts the Company, or makes any statement reflecting negatively on the Company, its affiliated corporations or entities, or any of their officers, directors, employees, agents or representatives, including, but not limited to, any matters relating to the operation or management of the Company, Participant's service with the Company and the termination of thereof, irrespective of the truthfulness or falsity of such statement;

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(vii) the date during the Repayment Period that the Committee determines that the Participant committed an act or omission while an employee or other service provider of the Company or any Subsidiary that was not discovered by the Company or Subsidiary until after the termination of such Participant's employment or other service with the Company or Subsidiary that would, if such Participant were an active employee or other service provider of the Company or Subsidiary at the time such act or omission is discovered, be reason for termination of such Participant's employment or other service for Cause (as defined herein or pursuant to an employment agreement, consulting agreement or other similar agreement that the Participant has entered into with the Company or any Subsidiary); or

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(viii) the date during the Repayment Period that the Participant fails to cooperate with the Company or any Subsidiary in all investigations of any kind, in assisting and cooperating in the preparation and review of documents and meeting with Company counsel, and in providing truthful testimony as a witness in connection with any present or future court, administrative, agency or arbitration proceeding involving the Company or any Subsidiary.

(c) Except as set forth in an applicable Award Agreement, Repayment Period shall mean:

(i) with respect to Triggering Events described in Sections 15(b)(i), (ii), (v), (vii) and (viii), anytime;

(ii) with respect to Triggering Event described in Sections 15(b)(iii) and (vi), the period that the Participant is employed by, or otherwise provides services to, the Company or any Subsidiary, plus the 24-month period immediately following the termination such employment or service; and

(iii) with respect to Triggering Event described in Sections 15(b)(iv), the period that the Participant is employed by, or otherwise provides services to, the Company or any Subsidiary, plus the 36-month period immediately following the termination such employment or service.

(d) Unless otherwise set forth in the applicable Award Agreement, by accepting an Award under the Plan, the Participant thereby: (i) agrees to be bound by the terms and conditions of Sections 8(a)(i)(1)-(3), Attachment A and this Section 15, including, without limitation, the required payment provisions of Sections 15(a)(ii)-(v), (ii) acknowledges and agrees that the Company would have not granted such Award in the absence such terms and conditions, (iii) represents and warrants that he will remain in full compliance with such terms and conditions, (iv) agrees to make or cause to be made the required payments set forth in Sections 15(a)(ii)-(v), as applicable, and (v) without limiting the generality of Section 15(d)(iv) above, agrees that the Company may deduct from, and set-off against, any amounts owed to the Participant by the Company or any Subsidiary (including, without limitation, amounts owed as wages, bonuses, severance, or other fringe benefits) to the extent of the amount owed by the Participant to the Company pursuant to this Section 15.

(e) An Award Agreement evidencing an Award under the Plan as to which this Section 15 applies shall provide the applicable Participant with a reasonable period of time following the date of such Participant's receipt of such Award Agreement to refuse acceptance of such Award if he disagrees with any of the terms and conditions of this Section 15. If a Participant refuses acceptance of an Award, the Award will be immediately forfeited, the Participant will have no further rights with respect to such Award, and the shares of Common Stock underlying such Award shall again be available for grant under the Plan.

**16. Non-transferability.** No Award granted under the Plan or any rights or interests therein shall be sold, transferred, assigned, pledged or otherwise encumbered or disposed of except by will or by the laws of descent and distribution or as may otherwise be required by law; provided, however, that the Administrator may, subject to such terms and conditions as the Administrator shall specify, permit the transfer of an Award to a Participant's family members or to one or more trusts established in whole or in part for the benefit of one or more of such family members; *provided further*, that the restrictions in this sentence shall not apply to the shares received in connection with an Award after the date that the restrictions on transferability of such shares set forth in the applicable Award Agreement have lapsed. During the lifetime of a Participant, a Stock Option or Stock Appreciation Right shall be exercisable only by, and payments in settlement of Awards shall be payable only to the Participant, or, if applicable, the family member or trust to whom such Stock Option, Stock Appreciation Right or other Award has been transferred in accordance with the previous sentence.

**17. Recapitalization or Reorganization.**

(a) *Authority of the Company and Shareholders.* The existence of the Plan, the Award Agreements and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other

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change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) *Change in Capitalization.* Notwithstanding any provision of the Plan or any Award Agreement, in the event of any change in the outstanding Common Stock by reason of a stock dividend, recapitalization, reorganization, merger, consolidation, stock split, combination or exchange of shares or any other significant corporate event affecting the Common Stock, the Committee, in its discretion, shall make (i) such proportionate adjustments it considers appropriate (in the form determined by the Committee in its sole discretion) to prevent diminution or enlargement of the rights of Participants under the Plan with respect to the aggregate number, class and/or issuer of shares of Common Stock for which Awards in respect thereof may be granted under the Plan, the number, class and/or issuer of shares of Common Stock covered by each outstanding Award, and the exercise or Award prices in respect thereof and/or (ii) such other adjustments as it deems appropriate. The Committee's determination as to what, if any, adjustments shall be made shall be final and binding on the Company and all Participants.

(c) *Limitations.* Notwithstanding the foregoing: (i) any adjustments made to Section 17(b) of the Plan to Awards that are considered deferred compensation within the meaning of Section 409A of the Code shall be made in compliance with the requirements of Section 409A of the Code; (ii) any adjustments made pursuant to Section 17(b) of the Plan to Awards that are not considered deferred compensation subject to Section 409A of the Code shall be made in such manner as to ensure that after such adjustment, the Awards either continue not to be subject to Section 409A of the Code or comply with the requirements of Section 409A of the Code; and (iii) the Administrator shall not have the authority to make any adjustments pursuant to Section 17(b) of the Plan to the extent that the existence of such authority would cause an Award that is not intended to be subject to Section 409A of the Code to be subject thereto.

**18. Change in Control.**

(a) If, within two (2) years following a Change in Control which occurs after the Effective Date, a Participant's employment with the Company or any Subsidiary is involuntarily terminated by the Company or that Subsidiary, whether or not for Cause (as defined in Section 8): (i) all Stock Options or Stock Appreciation Rights of such Participant then outstanding shall become fully exercisable as of the date of such termination, whether or not exercisable, (ii) all restrictions and conditions of all Stock Awards of such Participant then outstanding shall lapse as of the date of such termination, (iii) all Restricted Stock Units of the Participant shall become nonforfeitable as of the date of such termination, and (iv) all Performance Share Awards of such Participant shall be deemed to have been fully earned as of the date of such termination.

(b) In addition, in the event of a Change in Control occurring after the Effective Date, the Board or the Committee may, in its sole discretion, make any or all of the following adjustments: (A) by written notice to each holder of an outstanding Stock Option or Stock Appreciation Right provide that such holder's Stock Options or Stock Appreciation Rights shall be cancelled unless exercised within thirty (30) days (or such longer period as the Board or the Committee, as the case may be, shall determine) after the date of such notice; (B) provide for the payment upon termination or cancellation of a Stock Option or Stock Appreciation Right (whether or not such Stock Option or Stock Appreciation Right is otherwise exercisable) of an amount in cash, securities and/or other property (or a combination thereof) with an aggregate value equal to: (x) the excess, if any, of the aggregate Fair Market Value as of the date of such Change in Control of the Common Stock then subject to the Stock Option or Stock Appreciation Right over the product of the number of shares of Common Stock then subject to the Stock Option multiplied by the per share exercise price, less (y) an amount equal to the federal, state and local taxes, if any, required to be withheld or paid as a result of such payment; (C) provide for the cancellation of outstanding

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Stock Awards, Restricted Stock Unit Awards, Performance Share Awards, Section 162(m) Awards or other Awards in exchange for payments of cash, securities and/or other property (or a combination thereof) having an aggregate value equal to the value of such Award, as determined by the Board or Committee, as the case may be, in its sole discretion; (D) substitute other property (including, without limitation, cash or other securities of the Company and securities of an entity other than the Company); and/or (E) make any other adjustments, or take other reasonable action, as the Board or the Committee, as the case may be, deem appropriate provided that no such action impairs any rights that a Participant has under the Plan without such Participant's consent.

**19. Amendment of the Plan; Amendment of Outstanding Stock Options.** The Board or Committee may at any time and from time to time terminate, modify, suspend or amend the Plan in whole or in part; provided, however, that no such termination, modification, suspension or amendment shall be effective without shareholder approval if such approval is required to comply with any applicable law or stock exchange rule; and provided further, that the Board or Committee may not, without shareholder approval, amend the Plan if such amendment could, at the time of such amendment, reasonably be expected to result in a material: (i) increase the benefits accruing to participants under the Plan; (ii) increase the aggregate number of shares issuable under the Plan (other than by adjustment pursuant to Section 17(b)); or (iii) modification of the requirements as to eligibility for participation in the Plan. No termination, modification, suspension or amendment of the Plan shall, without the consent of a Participant to whom any Awards shall previously have been granted, adversely affect his or her rights under such Awards; provided, however, that notwithstanding anything to the contrary herein, if and to the extent the Board or Committee determines that the terms of any provision of this Plan or any payment hereunder may result in the imposition of an excise tax on any Participant pursuant to Section 409A of the Code, the Board or Committee shall have authority to take such action to amend, modify, cancel or terminate the Plan or any payments to such Participant hereunder as it deems necessary or advisable to limit or, if possible, avoid the impact of any such excise tax. Furthermore, notwithstanding any provision herein to the contrary, the Board or Committee shall have broad authority to amend the Plan or any Award to take into account changes in applicable tax laws (including, without limitation, Section 409A of the Code), securities laws, accounting rules and other applicable state and federal laws.

**20. No Repricing of Stock Options.** Notwithstanding any provision in the Plan to the contrary, the Committee shall not permit the repricing of Stock Options by any method, including by cancellation and reissuance, without first obtaining shareholder approval.

**21. Miscellaneous.**

(a) *Tax Withholding.* No later than the date as of which an amount first becomes includible in the gross income of the Participant for applicable income tax withholding purposes with respect to any award under the Plan, the Participant shall pay to the Company or make arrangements satisfactory to the Administrator regarding the payment of any federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Administrator, in accordance with rules and procedures established by the Administrator, the minimum required withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement. The obligation of the Company under the Plan shall be conditioned upon such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

(b) *Election to Withhold Shares.* If the Committee so permits, a Participant may elect to satisfy the Company's tax withholding obligation with respect to a Stock Option by having shares withheld up to an amount that does not exceed the Participant's maximum marginal tax rate for federal (including FICA), state and local tax liabilities. The election must be in a form and manner prescribed by the Committee and shall be subject to the prior approval of the Committee.

(c) *No Right to Grants or Employment.* No Eligible Individual or Participant shall have any claim or right to receive grants of Awards under the Plan. Nothing in the Plan or in any Award or Award Agreement shall confer



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upon any employee of the Company or any Subsidiary any right to continued employment with the Company or any Subsidiary, as the case may be, or interfere in any way with the right of the Company or a Subsidiary to terminate the employment of any of its employees at any time, with or without cause.

(d) *Unfunded Plan.* The Plan is intended to constitute an unfunded plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or payments in lieu thereof with respect to awards hereunder.

(e) *Other Employee Benefit Plans.* Payments received by a Participant under any Award made pursuant to the provisions of the Plan shall not be included in, and shall not affect the determination of benefits under any other employee benefit plan or similar arrangement provided by the Company or any Subsidiary.

(f) *Section 409A.* It is the intention of the Company that no Award shall be deferred compensation subject to Section 409A of the Code, unless and to the extent that the Administrator specifically determines otherwise, and the Plan and the terms of all Awards shall be interpreted accordingly.

(g) *Securities Law Restrictions.* The Administrator may require each Eligible Individual purchasing or acquiring shares of Common Stock pursuant to a Stock Option or other Award under the Plan to represent to and agree with the Company in writing that such Eligible Individual is acquiring the shares for investment and not with a view to the distribution thereof. All certificates for shares of Common Stock delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Administrator may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, the New York Stock Exchange or any other exchange upon which the Common Stock is then listed, and any applicable federal or state securities law, and the Administrator may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. No shares of Common Stock shall be issued hereunder unless the Company shall have determined that such issuance is in compliance with, or pursuant to an exemption from, all applicable federal and state securities laws.

(h) *Compliance with Rule 16b-3.*

(i) The Plan is intended to comply with Rule 16b-3 under the Exchange Act or its successors under the Exchange Act and the Administrator shall interpret and administer the provisions of the Plan or any Award Agreement in a manner consistent therewith. To the extent any provision of the Plan or Award Agreement or any action by the Administrator fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Administrator. Moreover, in the event the Plan or an Award Agreement does not include a provision required by Rule 16b-3 to be stated therein, such provision (other than one relating to eligibility requirements, or the price and amount of Awards) shall be deemed automatically to be incorporated by reference into the Plan or such Award Agreement insofar as Participants subject to Section 16 of the Exchange Act are concerned.

(ii) Notwithstanding anything contained in the Plan or any Award Agreement to the contrary, if the consummation of any transaction under the Plan would result in the possible imposition of liability on a Participant pursuant to Section 16(b) of the Exchange Act, the Administrator shall have the right, in its sole discretion, but shall not be obligated, to defer such transaction to the extent necessary to avoid such liability.

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(i) *Award Agreement.* In the event of any conflict or inconsistency between the Plan and any Award Agreement, the Plan shall govern, and the Award Agreement shall be interpreted to minimize or eliminate any such conflict or inconsistency.

(j) *Invalid Provisions.* In the event that any provision of this Plan is found to be invalid, unenforceable or otherwise inconsistent with any applicable law (including, without limitation Section 409A of the Code), such

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invalidity, unenforceability or inconsistency will not be construed as rendering any other provisions contained herein as invalid, unenforceable or inconsistent, and all such other provisions will be given full force and effect to the same extent as though the invalid, unenforceable or inconsistent provision was not contained herein.

(k) *No Fractional Shares.* No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan or any Option. The Committee shall determine whether cash, other awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(l) *Headings.* Section headings are for reference only. In the event of a conflict between a title and the content of a Section, the content of the Section shall control.

(m) *Expenses.* The costs and expenses of administering the Plan shall be borne by the Company.

(n) *Applicable Law.* The validity, construction, interpretation and effect of the Plan and Award Agreements issued under the Plan shall exclusively be governed by and determined in accordance with the law of the State of Delaware, without giving effect to the conflicts of laws principles thereof.

(o) *Effective Date.* The Plan, as amended and restated hereby shall be effective as of February 19, 2009.



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***ATTACHMENT A***

**Restrictive Covenants**

1. The Participant acknowledges that the Company is generally engaged in business throughout the United States. During the two-year period following the Participant's termination of employment for any reason other than a termination by the Company without Cause or, if the Participant terminates employment as a result of Voluntary Retirement, during the period which is the greater of (i) the two-year period following such Voluntary Retirement or (ii) the period beginning on the effective date of such Voluntary Retirement and ending on the date on which any Award granted to such Participant will vest in full, the Participant agrees that he will not, unless acting with the prior written consent of the Company, directly or indirectly, own, manage, control, or participate in the ownership, management or control of, or be employed or engaged by, or otherwise affiliated or associated with, as an officer, director, employee, consultant, independent contractor or otherwise, any other corporation, partnership, proprietorship, firm, association or other business entity, which is engaged in any business, including the wholesale distribution of pharmaceutical products, that, or otherwise engage in any business that, as of the date on which the Participant's employment with the Company terminates, is engaged in by the Company, has been reviewed with the Board for development to be owned or managed by the Company, and/or has been divested by the Company but as to which the Company has an obligation to refrain from involvement, but only for so long as such restriction applies to the Company; provided, however, that the ownership of not more than 5% of the equity of a publicly traded entity shall not be deemed to be a violation of this paragraph.
2. The Participant also agrees that he will not, directly or indirectly, during the Participant's employment by the Company and for two years following the termination of such employment for any reason other than a termination by the Company without Cause, induce any person who is an employee, officer, director, or agent of the Company, to terminate such relationship, or employ, assist in employing or otherwise be associated in business with any present or former employee or officer of the Company, including without limitation those who commence such positions with the Company after the date that such Participant's employment by the Company terminates.
3. The Participant also agrees to return, immediately following the Participant's termination of employment, any records and business documents, whether on computer or hard copy, and other materials (including but not limited to computer disks and tapes, computer programs and software, office keys, correspondence, files, customer lists, technical information, customer information, pricing information, business strategies and plans, sales records and all copies thereof) (collectively, the "Corporate Records") provided by the Company and/or its predecessors, subsidiaries or affiliates or obtained as a result of the Participant's prior employment with the Company and/or its predecessors, subsidiaries or affiliates, or created by the Participant while employed by or rendering services to the Company and/or its predecessors, subsidiaries or affiliates. The Participant acknowledges that all such Corporate Records are the property of the Company. In addition, the Participant shall promptly return in good condition any and all beepers, credit cards, cellular telephone equipment, business cards and computers.
4. The Participant acknowledges and agrees that the restrictions contained in this Attachment A are reasonable and necessary to protect and preserve the legitimate interests, properties, goodwill and business of the Company and that the Company would not have granted an Award to the Participant in the absence of such restrictions. In the event that the provisions of this Attachment A should ever be adjudicated to exceed the limitations permitted by applicable law in any jurisdiction, it is the intention of the parties that the provision shall be amended such that those provisions are made consistent with the maximum limitations permitted by applicable law, that such amendment shall apply only within the jurisdiction of the court that made such adjudication and that those provisions otherwise be enforced to the maximum extent permitted by law. If a Participant has entered into an agreement pursuant to which such Participant is subject to restrictive covenants with respect to the Company that are similar in nature to the covenants of this Attachment A, the provisions of this Attachment A shall be deemed to be in addition to, not in lieu of, the provisions of such agreement.

For purposes of this Attachment A, the term "Company" shall be deemed to include subsidiaries and affiliates of the Company.

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**AMERISOURCEBERGEN CORPORATION**

**PROXY FOR ANNUAL MEETING OF STOCKHOLDERS**

**FEBRUARY 19, 2009**

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

KNOW ALL MEN BY THESE PRESENTS, that the undersigned stockholder of AMERISOURCEBERGEN CORPORATION, a Delaware corporation, does hereby constitute and appoint R. David Yost and John G. Chou, or any one of them, with full power to act alone and to designate substitutes, the true and lawful attorneys and proxies of the undersigned for and in the name and stead of the undersigned, to vote all shares of Common Stock of AMERISOURCEBERGEN CORPORATION which the undersigned would be entitled to vote if personally present at the Annual Meeting of Stockholders to be held at the Four Seasons Hotel Philadelphia, One Logan Square, Philadelphia, Pennsylvania 19103, on February 19, 2009 at 2:00 p.m., Eastern Time, and at any and all adjournments and postponements thereof, as follows:

**THIS PROXY WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR ITEMS 1, 2 AND 3, AGAINST ITEM 4 AND WILL GRANT DISCRETIONARY AUTHORITY PURSUANT TO ITEM 5.**

(Continued on the reverse side. Must be signed and dated on the reverse side)

**Address Change/Comments**

BNY MELLON SHAREOWNER SERVICES  
P.O. BOX 3550

(Mark the corresponding box on the reverse side)

SOUTH HACKENSACK, NJ 07606-9250

**p FOLD AND DETACH HERE p**

***You can now access your BNY Mellon Shareowner Services account online.***

Access your BNY Mellon Shareowner Services stockholder account online via Investor ServiceDirect® (ISD).

The transfer agent for AmerisourceBergen Corporation now makes it easy and convenient to get current information on your stockholder account.

View account status

View payment history for dividends

View certificate history

Make address changes

View book-entry information

Obtain a duplicate 1099 tax form

Establish/change your PIN

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**Table of Contents**

Please mark  
your votes as  
indicated in  
this example X

**The Board of Directors recommends a vote FOR Items 1, 2 and 3.**

Item 1. ELECTION OF THREE DIRECTORS TO CLASS II.				FOR AGAINST ABSTAIN			
	FOR	AGAINST	ABSTAIN				
Nominees:				Item 2. Ratification of appointment of independent registered public accounting firm.	..	..	..
				Item 3. Approval of amendments to the AmerisourceBergen Corporation 2002 Management Stock Incentive Plan and approval of the plan, as amended.	..	..	..

1 Richard C. Gozon	..	..	..
2 Michael J. Long	..	..	..
3 J. Lawrence Wilson	..	..	..

**The Board of Directors recommends a vote AGAINST Item 4.**

Item 4. Stockholder proposal to redeem AmerisourceBergen's poison pill. .. ..

Item 5. Other matters

In their discretion, the proxies are authorized to vote upon such other matters as may properly come before

the meeting or any adjournments thereof.

Mark Here for Address ..

Change or Comments

SEE REVERSE

**Signature**

**Signature**

**Date**

Note: Please date this proxy, sign your name exactly as it appears hereon, and return it promptly using the enclosed postage paid envelope. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

**p FOLD AND DETACH HERE p**

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

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

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the day prior to annual meeting day.

**INTERNET**

**<http://www.eproxy.com/abc>**

Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.

**OR**

**TELEPHONE**

**1-866-580-9477**

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

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

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

**Important notice regarding the Internet availability of proxy materials for the Annual Meeting of Stockholders**

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

The Proxy Statement and the 2008 Annual Report on Form 10-K are available at:

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