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ANNUAL REPORT

FOR THE YEAR ENDED
DECEMBER THIRTY-FIRST

1940



CRANE CO.

836 SOUTH MICHIGAN AVENUE

CHICAGO

PLAINTIFF'S
EXHIBIT
CRA-171

Tables

Annual Report

FOR THE YEAR ENDED
DECEMBER THIRTY-FIRST

1940

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CRANE CO.

836 SOUTH MICHIGAN AVENUE

Chicago

CRANE CO.

DIRECTORS

JOHN B. BERRYMAN, *Chairman*

ARTHUR O. CHOATE	SYDNEY G. McALLISTER
J. H. COLLIER	P. R. MORK
A. F. GARTZ, JR.	CHARLES B. NOLTE
F. R. LILLIE	WILLIAM R. ODELL
MARK W. LOWELL	E. A. RUSSELL

OFFICERS

CHARLES B. NOLTE	<i>President</i>
J. H. COLLIER	<i>Vice President</i>
C. R. CRANE, II.	<i>Vice President</i>
P. R. MORK	<i>Vice President</i>
D. G. PARK	<i>Vice President</i>
J. L. HOLLOWAY	<i>Secretary</i>
WALTER EVENSEN	<i>Treasurer</i>
F. H. KAISER	<i>Comptroller</i>
I. A. COTHWIN	<i>Assistant Secretary</i>
W. H. WINSLOW, JR.	<i>Assistant Secretary</i>
L. E. BAKER	<i>Assistant Treasurer</i>
C. W. DITTMAR	<i>Assistant Treasurer</i>

STOCK TRANSFER AGENTS

J. P. MORGAN & CO. INCORPORATED	W. E. PETERSON, <i>Transfer Clerk</i>
Wall and Broad Streets	Crane Co., 836 South Michigan Ave.,
New York City	Chicago, Illinois

REGISTRARS OF STOCK

THE CHASE NATIONAL BANK	CONTINENTAL ILLINOIS NATIONAL BANK
OF THE CITY OF NEW YORK	AND TRUST COMPANY OF CHICAGO
Pine and Nassau Streets	231 South LaSalle Street
New York City	Chicago, Illinois

ANNUAL REPORT

To the Shareholders of Crane Co.:

This Annual Report covering the operations of your company for the year 1940 is presented by the management with the approval of the Board of Directors.

FINANCIAL REVIEW

Statements of Profit and Loss and Surplus for the year, and a Balance Sheet as of December 31, 1940, for the company and its United States subsidiaries consolidated, together with statements reflecting the results of operations and the net assets of the subsidiary companies located in foreign countries other than France, and a certificate of Arthur Young & Co., independent public accountants, are shown on pages 8 to 13.

In view of the European conflict and regulations imposed on transactions in the currencies of the belligerent countries, the results of operations and the financial condition of subsidiary companies located in foreign countries have been excluded from the consolidated statements except that the investments in such companies are carried in the Balance Sheet at the lower of cost or book value and the Profit and Loss Statement has been prepared in a manner to illustrate what the Consolidated Income would have been for the year if the Net Income of the subsidiary companies in Canada and England had been included in the consolidation in the manner customary in previous years.

The amounts quoted throughout the narrative of this report are for the most part, and in all instances except where otherwise specified, on a basis of consolidating only the figures of the United States companies.

CONSOLIDATED PROFIT AND LOSS AND SURPLUS:

The Consolidated Profit and Loss and Surplus Statements of Crane Co. and its United States subsidiaries only are given for the year 1940, together with a Profit and Loss Statement for the year 1939 prepared upon the same basis of consolidation.

The Profit and Loss Statement shows a net income for the year 1940 of \$5,134,849.95 equal to earnings of \$1.77 per share on the 2,348,628 shares of Common Stock after allowance for the dividend requirements of the 192,803 shares of 5% Cumulative Convertible Preferred Stock. This net income includes dividends received from foreign subsidiaries in the amount of \$374,345.04, and is comparable to a net income on the same basis for the year 1939 of \$4,444,194.38, including dividends received from foreign subsidiaries in the amount of \$900,000.00. The net income from operations in the United States for the year 1940, exclusive of dividends received from foreign subsidiaries and after provision for dividends on the Preferred Stock, amounted to \$1.61 per Common Share compared with \$1.09 for the year 1939.

The Consolidated Surplus of Crane Co. and its United States subsidiaries at December 31, 1940 amounted to \$10,788,943.80, of which \$1,514,886.08 is allocated as Capital Surplus, leaving \$9,274,057.72 as Earned Surplus. This compares with a total Surplus of \$9,038,971.06 on the same basis of consolidation at December 31, 1939, of which \$7,502,118.28 represented Earned Surplus.

Depreciation:

The amount charged to operations in the United States for depreciation for 1940 was \$1,870,901.19 compared with \$1,805,747.71 for 1939. The charge-off for depreciation of machinery and equipment is established on a basis of the estimated life of the individual item; these items are reviewed annually and the estimated remaining life revised where deemed necessary. The provision for depreciation on buildings and structures is computed at rates established from the experience of this and other companies for the various types of construction. This has been the general depreciation policy of your company during recent years.

Taxation:

During the year 1940 the company paid or accrued in combined direct taxes of all kinds in the United States a total of \$3,753,330.95, compared with \$2,905,745.92 for the year 1939. These taxes for 1940 were equivalent to \$1.59 per Common Share compared with the net income of \$1.61 per Common Share.

No provision has been made for Excess Profits Tax in the United States on the Earnings for the year 1940 as it appears that no such tax will be assessable. However, this tax may readily be a material amount for 1941.

The serious effect of the increasing tax burden may be better realized when it is appreciated that the total direct taxes paid or accrued by the Canadian and English subsidiaries for the year 1940 amounted to \$1,765,688.70 equivalent to two and one fifth times their combined net income of \$801,716.68, compared with taxes of \$683,989.74 equivalent to two thirds of their combined net income of \$1,036,822.56 in the year 1939.

Dividends:

A total of \$2,842,917.40 was paid in dividends during the year, consisting of the regular quarterly dividends of \$1.25 per share on the 5% Cumulative Preferred shares amounting to \$964,015.00, and a dividend of 80¢ per share amounting to \$1,878,902.40 paid on the Common shares on December 23, 1940.

CONSOLIDATED BALANCE SHEET:

Financial Condition:

Current assets of Crane Co. and its United States subsidiaries amounted to \$50,170,326.62 at December 31, 1940 and current liabilities amounted to \$9,395,537.97, reflecting a net working capital of \$40,774,788.65, of which \$6,224,891.13 was in cash. This net working capital shows an increase of \$1,629,874.78 from the comparable position at December 31, 1939.

The ratio of current assets to current liabilities was 5.34 to 1 on December 31, 1940.

Your company owes no overdue accounts or obligations and has no bank indebtedness.

Inventories:

Inventories of Crane Co. and its United States subsidiaries valued at cost or market, whichever was lower, amounted to \$30,839,438.29 at December 31, 1940, an increase of \$7,102,059.00 over the comparable amount at December 31, 1939.

The increase in inventories during the year reflects principally increases in quantities, though there were some increases in values arising from increases in material prices and the normal adjustment of wage rates. The increasing demands of customers, due particularly to the requirements of the National Defense activity, necessitated greater quantities of finished product and product in process of manufacture; and a greater supply of raw materials was necessary to properly support the higher operating level.

Open commitments for raw materials, made in the ordinary course of business, amounted to approximately \$1,635,000 at the end of the year. Prices thereon were as a whole somewhat below current market quotations.

Investment in Foreign Subsidiaries:

The foreign subsidiaries of the company are all wholly owned and are located in Canada, England and France.

The investment in the foreign subsidiary companies in Canada and England is carried in the Balance Sheet at cost, namely \$12,000,000. The investment in the subsidiary company located in Paris, France is carried in the Balance Sheet at its book value as computed at December 31, 1939 upon a basis of conversion of net current assets and other assets into U. S. dollars at the then current rate of 44.54 francs to the dollar and conversion of fixed assets, less accrued depreciation, at U. S. dollar cost at date of acquisition.

By excluding the subsidiary companies located in Canada and England from the consolidation and carrying the investment in them in the Balance Sheet at cost the parent company's equity of \$2,815,808.48 in their surplus, when computed at official rates of exchange, has been eliminated from consolidated surplus. Also, by carrying the subsidiary company located in France in the Balance Sheet at its equity value at December 31, 1939 the net operating losses of that company to that date and the depreciation in the French franc in relation to the U. S. dollar as it applied to the net assets of the company other than plant and equipment at December 31, 1939 have been absorbed in the Consolidated Surplus shown in the Balance Sheet. These amounts totalled \$2,372,877.12, of which \$623,538.85 was in respect to depreciation in the French franc. Otherwise no reserve for possible loss on the investments in subsidiaries in foreign countries has been created or set aside from Surplus, it being considered at this time impossible to appraise the worth of the companies at all accurately.

The net assets of the companies in Canada and England at December 31, 1940 and the results of their operations for the year ended that date are given on Page 12 of this report. Information is not obtainable in sufficiently reliable and complete form to permit the preparation of current financial statements for the French Company during the year 1940. According to current reports, none of the foreign properties have suffered practically any damage from war activities. The companies in Canada and England are operating at high production levels and it is understood that the plant of the company in France is operating on a modest scale.

Refinancing:

During October 1940 the company issued \$10,500,000 principal amount of Ten Year 2¼% Sinking Fund Debentures due October 1, 1950, and called for redemption the then outstanding \$10,950,000 par amount of Fifteen-Year 3½% Sinking Fund Debentures due June 1, 1951.

The 2¼% Debentures were sold at a premium of 1¼% over par which premium offset the underwriting commission of the same amount. The issue carries a minimum annual sinking fund requirement of \$500,000 par amount of debentures which would result in a residual balance due October 1, 1950 of \$6,000,000, whereas the 3½% Debentures carried a minimum annual sinking fund requirement of \$350,000 which would have resulted in a residual balance due June 1, 1951 of \$7,450,000.

Computed on a cash basis the carrying cost of the new issue over its term is approximately \$1,000,000 less than the carrying cost of the 3½% Debentures over their remaining term, after absorbing as a part of the carrying costs of the new issue all the costs of issuance, including the redemption premium paid on the old issue.

The terms of the indenture covering the new Ten Year 2¼% Sinking Fund Debentures are in a number of instances less restrictive and more favorable to the company than those of the indenture covering the 3½% Debentures that were retired.

OPERATING REVIEW

SALES:

The sales of your company and its United States subsidiaries for the year 1940 amounted to \$88,477,080.97, being 17.12 percent above the sales of 1939.

The dollar sales volume showed an increase for each month of the year compared with that of the previous year. However, the major increases occurred during the latter months which were affected to a greater extent by the National Defense Program both directly, and indirectly through increased business activity in general.

MANUFACTURING:

Your company and its United States subsidiaries are operating five manufacturing plants; its Canadian subsidiaries four manufacturing plants; and its English subsidiary one manufacturing plant.

Improvements and replacements of machinery and equipment have been made in all plants wherever they appeared to be economically sound. Expenditures for these purposes in the United States amounted to \$2,159,010.75 during 1940. Through additional mechanization and higher machine speeds both efficiency and capacity have been increased. All of the plants are being maintained to meet the diversified requirements economically.

RESEARCH:

An increasing amount of the time and facilities of the Division of Research and Engineering has been required for engineering, testing and development in connection with a substantial increase in the demand for product incorporating special features created largely through the National Defense Program.

A number of new lines of steel and brass valves were developed during the year and a number of the company's existing lines of valves were redesigned and improved. Progress also was made on the program for revising product and processes to reduce costs without reducing quality. The most outstanding development of the year in the plumbing goods line was our introduction of high-fired special clay bathtubs, sinks and laundry trays under the trade name "DURACLAY". These products, while only slightly higher in cost and weight than enameled iron, are superior to it and also to the earlier costly and excessively heavy porcelain products.

EMPLOYEE RELATIONS:

Satisfactory relations between employees and the management continued during 1940. A harmonious relationship is invaluable to the employees and the company as a whole, and the welfare of the employees will continue to receive utmost consideration.

LITIGATION:

In *United States versus Central Supply Association, et al.*, No. 16750 in the United States District Court for the Northern District of Ohio at Cleveland, 102 defendants, including the company, its president and its manager of plumbing and heating sales, are charged in an indictment under Section 1 of the Sherman Anti-Trust Act, returned March 29, 1940, with conspiring in restraint of trade in their sale of plumbing supplies. Crane Co. has followed its own individual sales policy and methods since it began to sell plumbing supplies years ago. There is nothing about its sales policy that is or has been secretive or the result of any agreement with others. Accordingly, on May 15, 1940 a joint and several demurrer to this indictment was filed on behalf of the company and its executives on the grounds of uncertainty, duplicity and failure to state facts sufficient to constitute an offense under the Sherman Anti-Trust Act. No decision has been rendered as yet on the demurrer.

OUTLOOK

The majority of the manufacturing departments of the company are now operating near capacity levels. Present indications are that the volume of business for, at least, the first six months of 1941 will be substantially greater than for the same period of last year. However, it is impracticable to attempt to forecast profits or losses, especially since increasing taxes and other uncontrollable costs have become such an unpredictable and important factor.

CONCLUSION

A comprehensive view of your company and its products both in use and in process of manufacture is presented in the pictorial section following the formal financial statements. Through the latter section it is also possible to visualize more fully Crane's part in the National Defense Program and to better appreciate the importance of its products not only in the construction and maintenance of battleships and munitions plants, but also in the thousands of other industrial plants and construction projects which must function before the purely munitions plants can operate successfully.

The Management and Directors welcome this opportunity of expressing their deep appreciation of the loyalty and cooperation of the employees, shareholders and customers of the company during the past year.

CHARLES B. NOLTE,
President.

JOHN B. BERRYMAN,
Chairman.

March 3, 1941.

CRANE CO.

(An Illinois Corporation)

AND SUBSIDIARIES IN THE UNITED STATES

CONSOLIDATED PROFIT AND LOSS STATEMENT

For the Years Ended December 31, 1940 and December 31, 1939

	Year ended Dec. 31, 1940	Year ended Dec. 31, 1939
CRANE CO. AND SUBSIDIARIES IN THE UNITED STATES		
Gross sales less returns and allowances		
Sales in United States	\$8,000,000.00	\$74,700,123.00
Sales in foreign subsidiaries	302,174.52	809,808.70
Total	\$8,302,174.52	\$75,509,931.70
Cost of sales, including selling, advertising and general expense but before profit on production	7,400,831.54	68,110,379.10
Provision for depreciation	1,970.96	1,808,747.10
Net operating profit	\$759,344.02	\$5,590,805.50
Other income, exclusive of dividends received from foreign subsidiaries—		
Cash discounts on purchases	\$ 691,272.84	\$ 589,737.44
Interest received	37,643.88	33,586.14
Miscellaneous other income	90,226.31	78,160.76
	\$ 819,143.03	\$ 701,484.34
Deductions—	\$ 8,358,487.41	\$ 6,049,315.72
Cash discount on sales	\$ 1,208,917.20	\$ 1,029,738.27
Interest paid	389,276.54	399,621.57
Amortization of debt discount and expense	52,271.90	57,047.84
Loss on sale or disposition of fixed assets	364,779.77	106,941.90
Miscellaneous deductions	11,655.61	22,606.66
Minority stockholders' interest in net income of subsidiaries	53,733.68	67,973.22
	\$ 2,080,634.70	\$ 1,683,929.46
Net profit (exclusive of dividends received from foreign subsidiaries) before federal income taxes	\$ 6,277,852.71	\$ 4,365,386.26
Provision for federal income taxes (no provision for excess profits taxes appears necessary)	1,517,347.80	821,191.88
Consolidated net profit of Crane Co. and subsidiaries in the U. S., exclusive of dividends received from foreign subsidiaries	\$ 4,760,504.91	\$ 3,544,194.38
NET PROFIT OF CANADIAN AND ENGLISH SUBSIDIARIES:		
*Canadian subsidiaries (after deducting taxes on income; \$918,918—1940; \$162,742—1939)	406,994.55	611,743.96
English subsidiary (after deducting taxes on income; \$689,418—1940; \$390,652—1939)	394,722.13	425,078.60
*CONSOLIDATED NET PROFIT OF CRANE CO. AND U. S., CANADIAN AND ENGLISH SUBSIDIARIES	\$ 5,562,221.59	\$ 4,581,016.94
*Deduct: Excess of consolidated net income of Canadian and English subsidiaries over dividends received therefrom	427,371.64	136,822.56
CONSOLIDATED NET PROFIT OF CRANE CO. AND SUBSIDIARIES IN THE UNITED STATES, INCLUDING DIVIDENDS RECEIVED FROM FOREIGN SUBSIDIARIES	\$ 5,134,849.95	\$ 4,444,194.38

*See note to "Investments and Operations in Canada and England"

CRANE CO.

(An Illinois Corporation)

AND SUBSIDIARIES IN THE UNITED STATES

CONSOLIDATED SURPLUS STATEMENT

For the Year Ended December 31, 1940

	Earned surplus	Capital surplus	Total
Surplus, December 31, 1939	\$ 7,502,110.28	\$1,536,852.78	\$ 9,038,971.06
Net profit for the year ended December 31, 1940	5,134,849.95		5,134,849.95
Discount on funded debt of subsidiary purchased for retirement	1,912.47		1,912.47
Sundry reserve, no longer required	54,686.52		54,686.52
	\$12,693,567.22	\$1,536,852.78	\$14,230,420.00
Deduct:			
Premium on Fifteen-Year 3½% Sinking Fund Debentures retired	109,500.00		\$ 109,500.00
Unamortized debt discount and expense applicable to funded debt retired	415,108.10		415,108.10
Excess of cost of stocks of subsidiaries (consolidated) at dates of acquisition over book value thereof		21,966.70	21,966.70
Net advances during the year to French subsidiary not consolidated	1,984.00		1,984.00
Appropriation to statutory reserve for compensation insurance	50,000.00		50,000.00
Cash dividends paid—			
On 5% cumulative preferred shares, \$5 per share	964,015.00		964,015.00
On common shares, \$.80 per share	1,878,902.40		1,878,902.40
	\$ 3,419,509.50	\$ 21,966.70	\$ 3,441,476.20
Surplus, December 31, 1940	\$ 9,274,057.72	\$1,514,886.08	\$10,788,943.80

CRANE CO.
(An Illinois Corporation)

AND SUBSIDIARIES IN THE UNITED STATES

CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1940

ASSETS AND OTHER DEBITS

CURRENT ASSETS:

Cash	\$ 6,224,89.47	
Accounts and notes receivable—		
Trade	80,300.97	
Sundry	12,362.48	
	92,663.45	
Less: Reserve for doubtful accounts and notes receivable	79,000.00	
		12,373,650
Inventories—within company offices and employees' homes at the lower of cost or market—		
Raw material and supplies	844.00	
Work in process	2,437,911.71	
Finished goods	1,440,802.56	
		30,839,438.29
Due from foreign subsidiaries not consolidated		132,340.72
Total current assets		\$ 50,170,326.62

INVESTMENTS:

Investments in foreign subsidiaries not consolidated—		
Canadian subsidiary (parent company of other Canadian subsidiaries and English subsidiary), at cost	\$12,000,000.00	
French subsidiary, at book value of its net assets at December 31, 1939	1,233,675.24	
		\$13,233,675.24
Other security investments, at cost or nominal value (less reserve, \$135,167.76)		36,556.25
Other investments, at cost (less reserve, \$5,456.12)		190,533.55
		13,460,765.04
FIXED ASSETS, AT COST:		
Land, land improvements and leases..	\$ 7,846,619.94	
Buildings	\$33,960,818.90	
Less: Reserve for depreciation	12,578,678.65	
		21,382,140.25
Machinery and equipment	\$34,920,741.34	
Less: Reserve for depreciation	18,840,625.58	
		16,080,115.76
		45,308,875.95

DEFERRED CHARGES:

Unamortized expense on ten year debentures	\$ 62,061.99	
Miscellaneous prepaid expenses and other deferred charges	190,553.25	
		252,615.24
		\$109,192,582.85

CRANE CO.
(An Illinois Corporation)

AND SUBSIDIARIES IN THE UNITED STATES

CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1940

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES:

Accounts payable and accrued pay rolls	\$ 253,846.60
Accrued general and federal income taxes	682,628.81
Accrued interest on long term debt	59,062.50
Sinking fund payments due August 20, 1941	500,000.00
Total current liabilities	\$ 9,395,537.97

LONG TERM DEBT:

Ten Year 20,000 Sinking Fund Debentures, due August 1, 1940, annual sinking fund payments of \$10,000,000.00 (less August 20 of each year to 1940)	\$10,500,000.00
Authorized issued and outstanding	
Less: Sinking fund payment due August 20, 1941 shown as current liability above	500,000.00
	\$10,000,000.00
Funded debt of subsidiary company (less \$25,000 payment deposited with trustee)	39,363.00
	10,039,363.00

MINORITY INTEREST IN SUBSIDIARY COMPANIES:

Preferred stockholders (par value)	\$ 46,600.00
Common stockholders (par value \$668,800, plus equity in surplus \$20,741.68)	689,541.68
	736,141.68

MISCELLANEOUS RESERVES AND DEFERRED CREDITS...

236,596.40

CAPITAL STOCK:

Cumulative convertible preferred shares, par value \$100, callable at \$105	
Authorized—200,000 shares	
Issued —192,803 shares designated as 5% cumulative convertible preferred shares	\$19,280,300.00
Common shares, par value \$25	
Authorized—3,000,000 shares (385,606 shares are reserved for conversion of cumulative convertible preferred shares)	
Issued —2,348,628 shares	58,715,700.00
	77,996,000.00

SURPLUS:

Capital	\$ 1,514,886.08
Earned	9,274,057.72
	10,788,943.80

\$109,192,582.85

INVESTMENTS AND OPERATIONS IN CANADA AND ENGLAND

The investment in the Canadian subsidiary, Crane, Limited (Canada), is carried in the balance sheet at U. S. dollar cost, \$12,000,000. The net assets of this company and its subsidiaries, segregated as between Canada and England, are summarized below:

	Canada	England	Total
Fixed assets less accrued depreciation, at U. S. dollar cost at date of acquisition	\$ 5,358,626.12	2,107,480.36	7,466,106.48
Net current assets at official rates of exchange (See note below) ..	5,455,199.75	1,810,271.85	7,265,471.60
Other assets at official rates of exchange	55,926.16	28,304.24	84,230.40
	<u>\$10,869,752.03</u>	<u>3,946,056.45</u>	<u>14,815,808.48</u>

The results of operations of the subsidiaries operating in Canada and England for the year ended December 31, 1940 (converted at official rates of exchange except that the provision for depreciation on fixed assets has been computed on U. S. dollar cost) are shown below:

	Canada	England
Gross sales, less returns and allowances	\$11,632,043.18	5,476,749.24
Cost of sales, including selling, administrative and general expenses but before provision for depreciation	9,999,318.37	4,134,374.40
	<u>\$ 1,632,724.81</u>	<u>1,342,374.84</u>
Provision for depreciation	295,113.10	149,587.07
Net operating profit	<u>\$ 1,337,611.71</u>	<u>1,192,787.77</u>
Other deductions, less other income	11,699.16	108,647.72
Net income before income and excess profits taxes	<u>\$ 1,325,912.55</u>	<u>1,084,140.05</u>
Provision for income taxes	<u>\$ 451,824.98</u>	<u>380,357.92</u>
Provision for excess profits taxes (See note below)	467,093.02	309,060.00
	<u>\$ 918,918.00</u>	<u>689,417.92</u>
Net income (See note below)	<u>\$ 406,994.55</u>	<u>394,722.13</u>

NOTE:

During the year 1940, Crane, Limited (Canada) received from its English subsidiary a dividend of \$453,288.49 Canadian dollars (equivalent to \$398,898.70 U. S. dollars) which, being an inter-company dividend, is not reflected in the operating results of the Canadian companies. No provision has been made for Canadian excess profits tax (\$368,197.83 U. S. dollars) on this dividend, as the company understands that there is under consideration an amendment to the Canadian tax laws which will eliminate the liability for such tax.

During the year 1940 Crane Co. received dividends of \$374,345.04 (U. S. dollars) from Crane, Limited (Canada) which have been reflected in the consolidated income account of Crane Co. and subsidiaries in the United States.

ARTHUR YOUNG & COMPANY

ACCOUNTANTS AND AUDITORS

1 NORTH LA SALLE STREET

CHICAGO

To the Shareholders of Crane Co.:

We have examined the consolidated balance sheet of Crane Co. (an Illinois Corporation) and subsidiary companies in the United States as at December 31, 1940, and the consolidated profit and loss and surplus statements for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

Our examination included tests of accounts receivable by direct correspondence with debtors and tests of the inventories at locations selected by us, by count and by observation of the taking of the physical inventories.

All foreign subsidiaries are located in Canada, England and France. These subsidiaries (wholly owned) were formerly consolidated in the annual reports but have been excluded from the accompanying consolidated financial statements. The investment in the Canadian subsidiary (parent company of other Canadian subsidiaries and English subsidiary) is stated in the balance sheet at U. S. dollar cost. Separate statements are submitted showing the net assets and operating results of the Canadian and English subsidiaries. The investment in the French subsidiary (located in Paris) is stated in the balance sheet at the book value of its net assets (in U. S. dollars) at December 31, 1939. Since that date, reliable figures have not been available. The assets and operations of the French subsidiary are not significant in relation to the whole. Owing to exchange restrictions and to other possible influences of the war in Europe, we approve of the exclusion of the foreign subsidiaries from the consolidated financial statements.

In our opinion, the accompanying consolidated balance sheet and related consolidated profit and loss and surplus statements present fairly the position of Crane Co. and its subsidiaries in the United States at December 31, 1940, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The principles of consolidation have been changed as explained in the preceding paragraph.

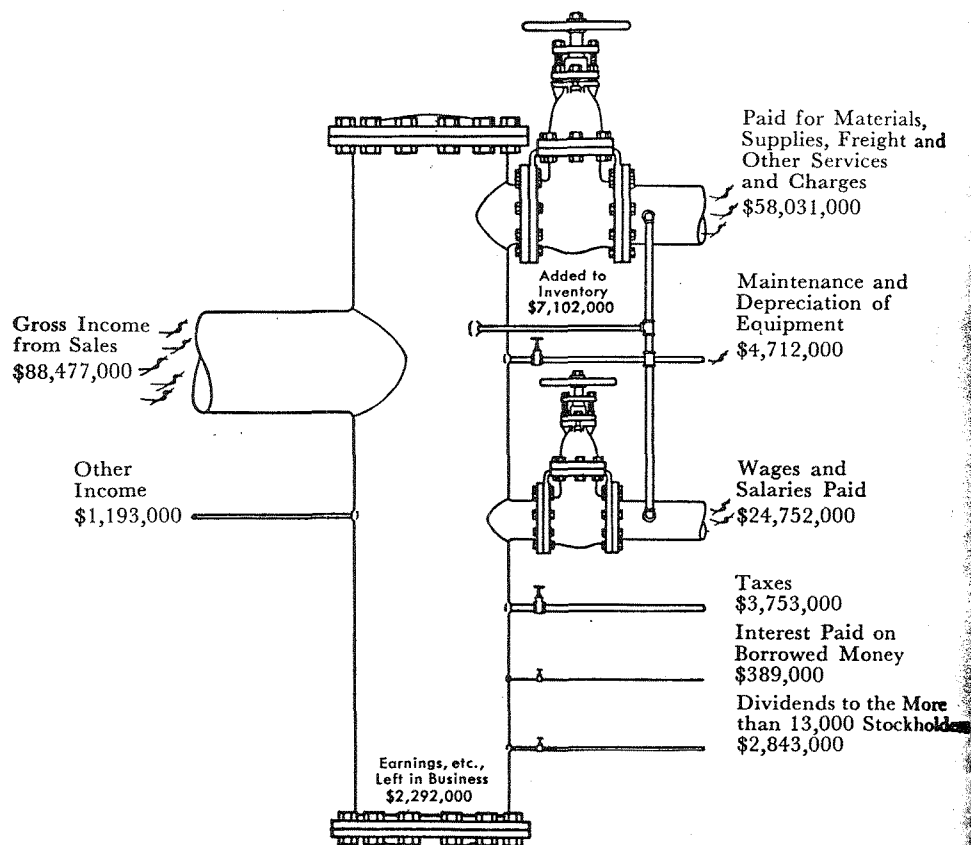
ARTHUR YOUNG & Co.

Certified Public Accountants.

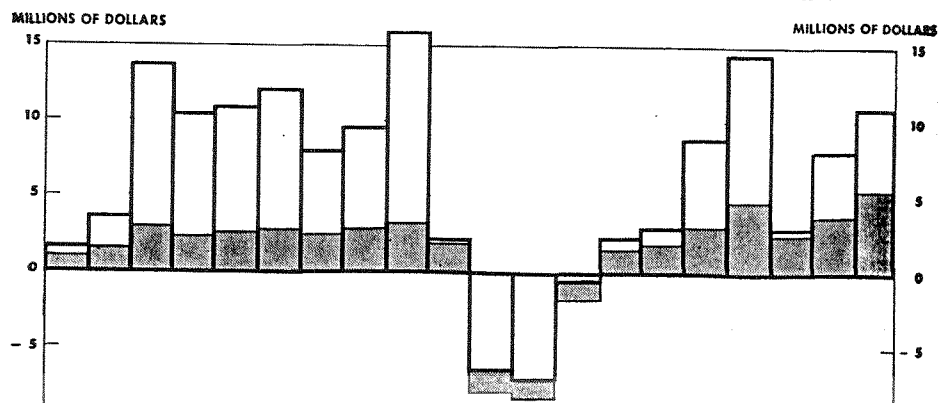
Chicago, Illinois,
February 28, 1941.

CRANE CO.'S FINANCIAL STATEMENTS IN ILLUSTRATED AND SIMPLIFIED FORM

OPERATIONS 1940

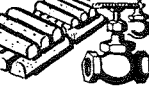


EARNINGS OR LOSSES OF THE ENTIRE CRANE ORGANIZATION BEFORE TAXES, SHOWING PART THEREOF PAID FOR TAXES AS THE SHADED AREA



BALANCE SHEET

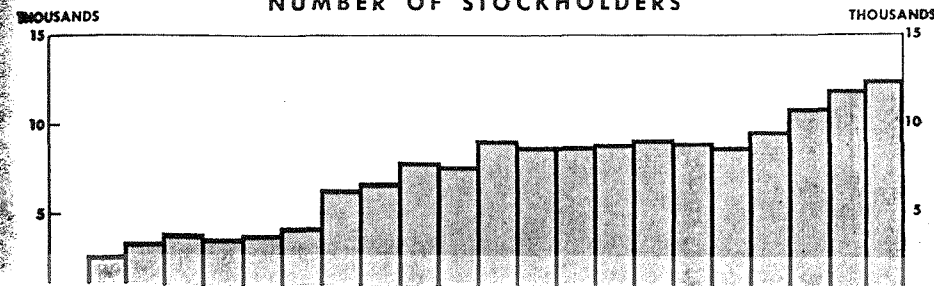
This is the ASSET section of the balance sheet and shows what we have.

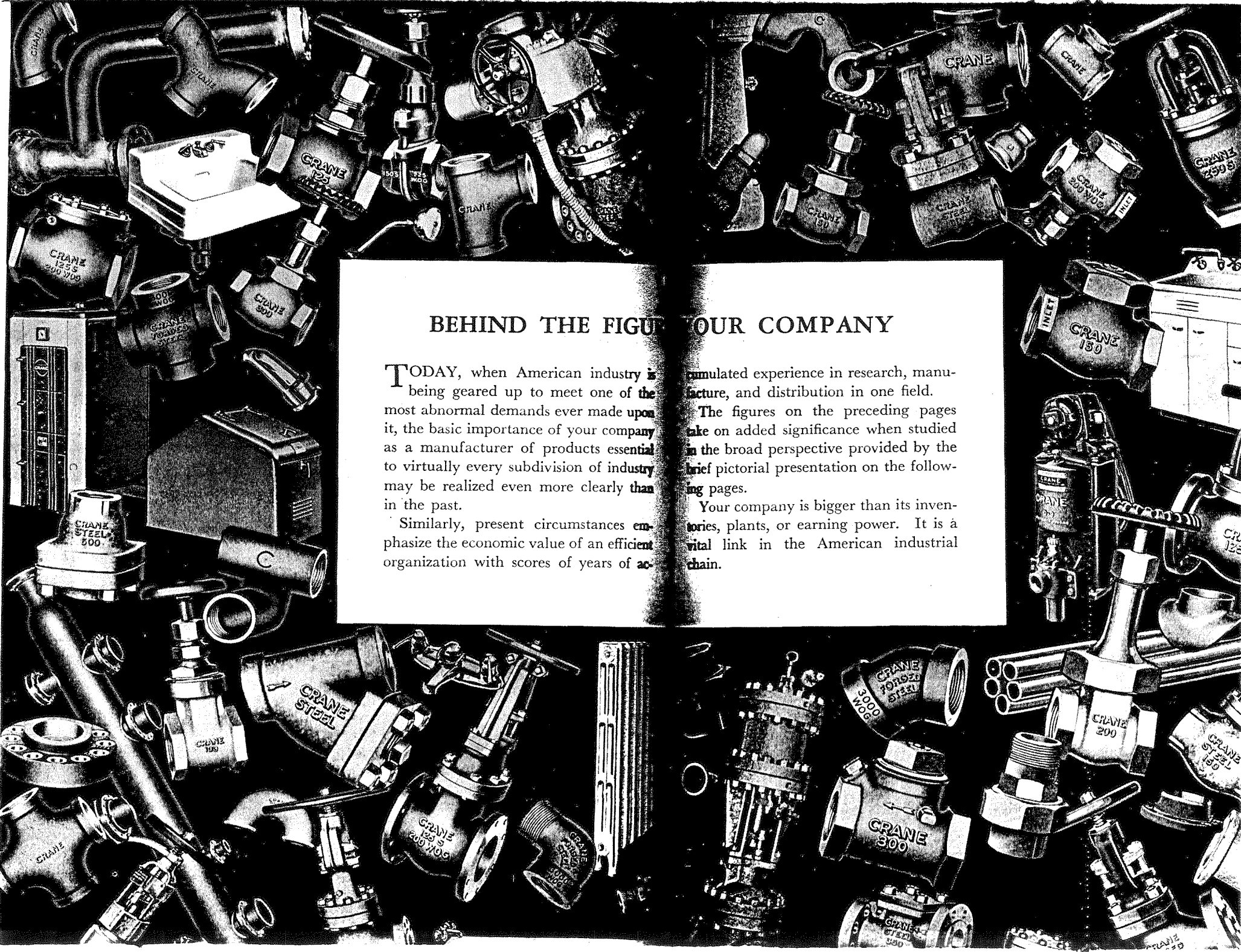
Cash, to pay for materials, wages, taxes, etc.		\$ 6,225,000
Due us from customers who bought our goods		\$ 13,106,000
Raw materials, supplies, finished and partly finished goods on hand		\$ 30,839,000
Land, buildings, machinery and equipment used to manufacture and distribute our goods, and investments in our foreign companies		\$ 58,770,000
Bills, etc., paid in advance		\$ 253,000
Total		<u>\$109,193,000</u>

This is the LIABILITY section of the balance sheet and shows the amounts owed and the stockholders' investment.

To those whom we owed for materials, wages, taxes, services and the like		\$ 9,396,000
To those who loaned us their money		\$ 10,039,000
The stockholders' investment including earnings left in the business		\$ 89,758,000
Total		<u>\$109,193,000</u>

NUMBER OF STOCKHOLDERS





BEHIND THE FIGURES YOUR COMPANY

TODAY, when American industry is being geared up to meet one of the most abnormal demands ever made upon it, the basic importance of your company as a manufacturer of products essential to virtually every subdivision of industry may be realized even more clearly than in the past.

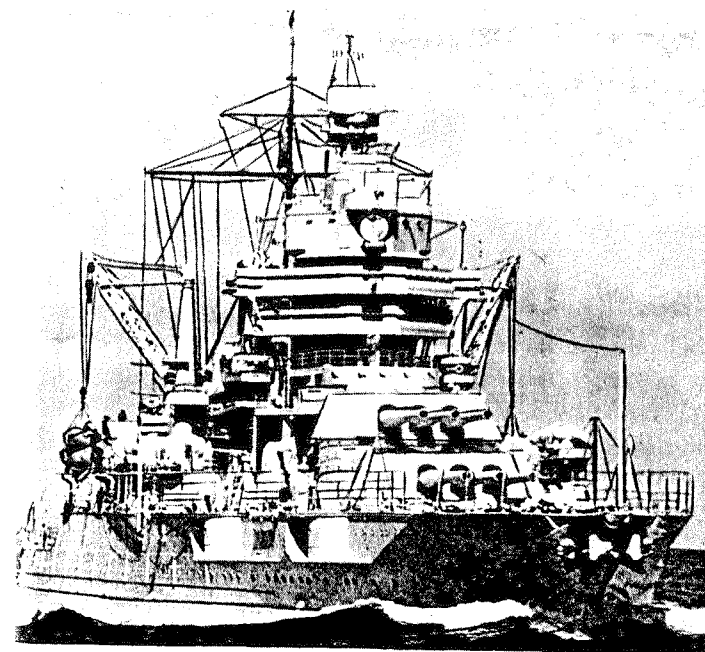
Similarly, present circumstances emphasize the economic value of an efficient organization with scores of years of ac-

cumulated experience in research, manufacture, and distribution in one field.

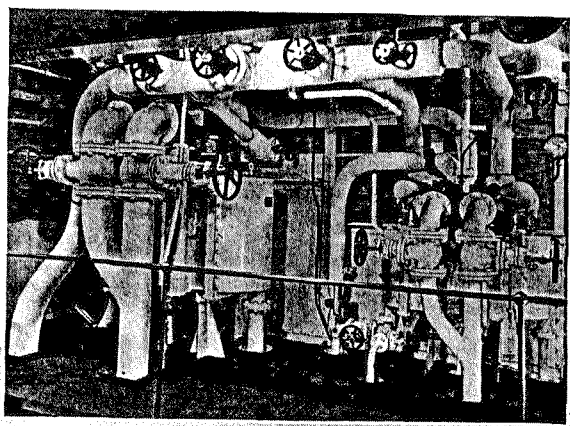
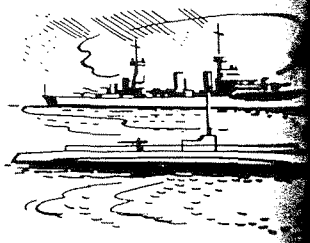
The figures on the preceding pages take on added significance when studied in the broad perspective provided by the brief pictorial presentation on the following pages.

Your company is bigger than its inventories, plants, or earning power. It is a vital link in the American industrial chain.

PRODUCTS FOR INDUSTRY AND CONSTRUCTION ESSENTIAL TO THE NATIONAL DEFENSE PROGRAM



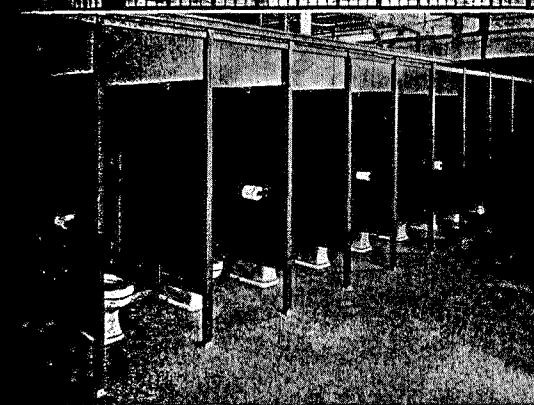
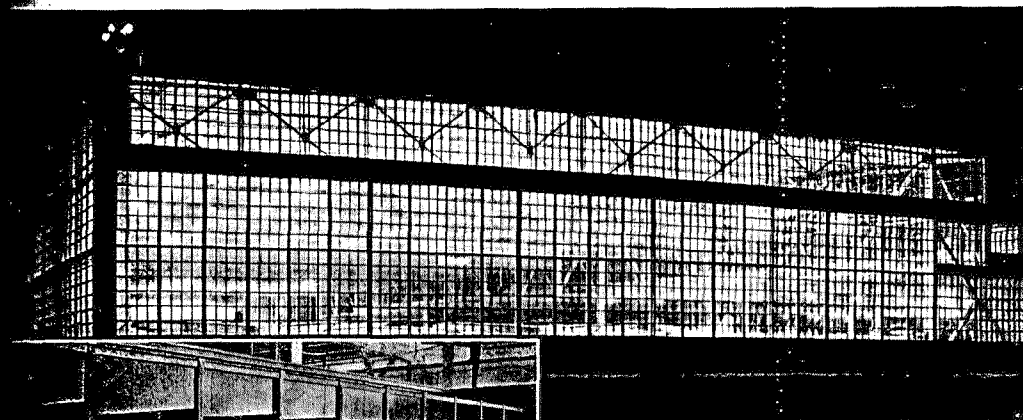
In the nation's defense—Crane valves and fittings play a vital role in the operation of ships of every type.



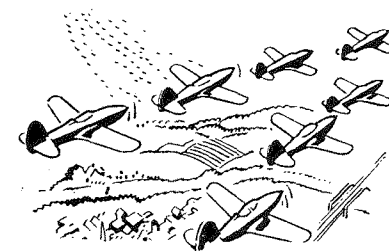
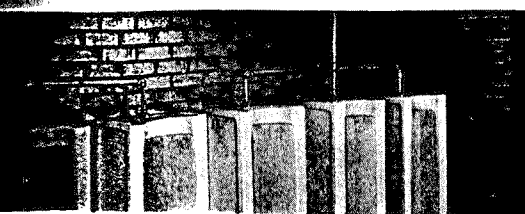
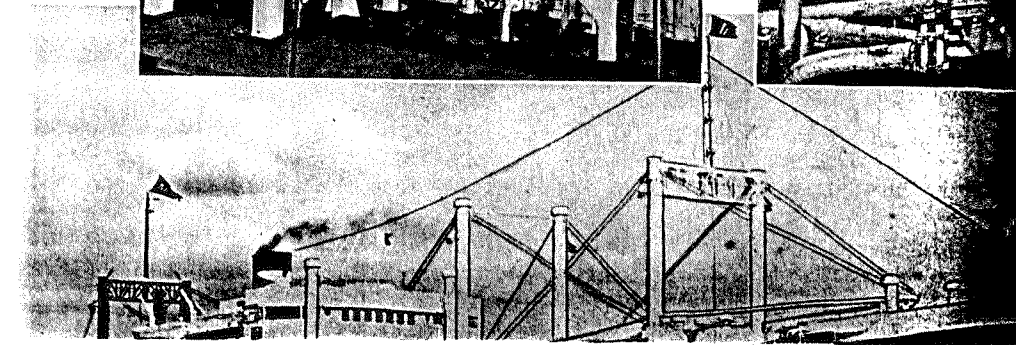
WHEREVER you turn in industry or building construction you find a maze of pipe lines performing essential services. Crane's 38,000 different kinds and sizes of valves and fittings is the world's largest and most complete array of products for equipping these lines.

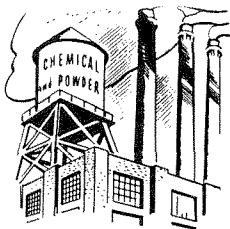
Obviously vast quantities of Crane products are required in the present emergency program—for the Navy

and merchant marine, for the piping in plants making aircraft, ammunition, chemicals, textiles, and food, for the oil industry and the railroads, for power plants of all types and sizes; for buildings of all kinds, from airplane hangars and administration buildings to cantonments and housing projects for industrial labor. From battleship to bungalow—Crane serves American industry and construction.

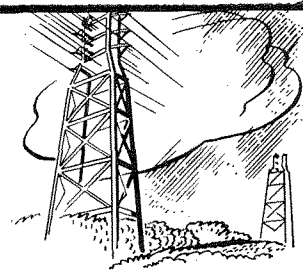
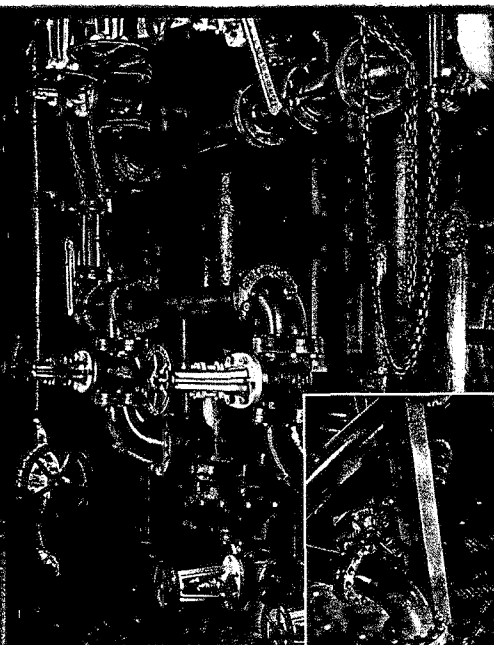


Stepped-up production programs give heed to workers' health and comfort. In this aviation plant, Crane industrial plumbing fixtures assure adequate and safe sanitation for 24 hours a day.

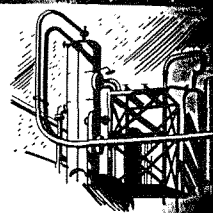
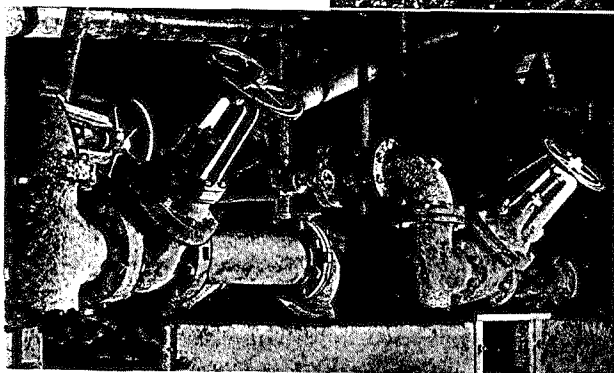




In chemical processing plants, Crane - Equipment meets the severe piping requirements for handling highly corrosive and volatile fluids.



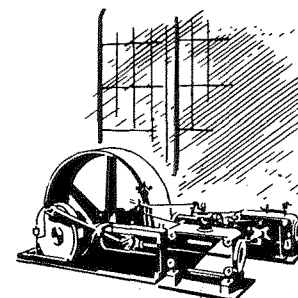
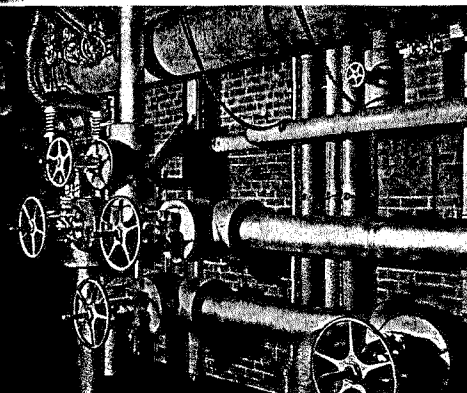
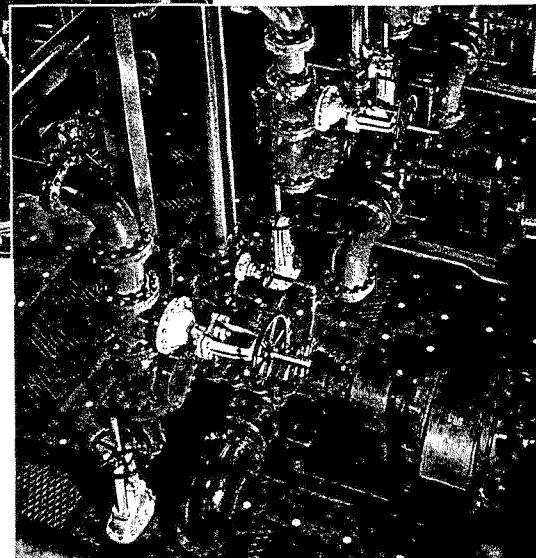
Central light and power companies are important users of Crane high pressure steel valves.

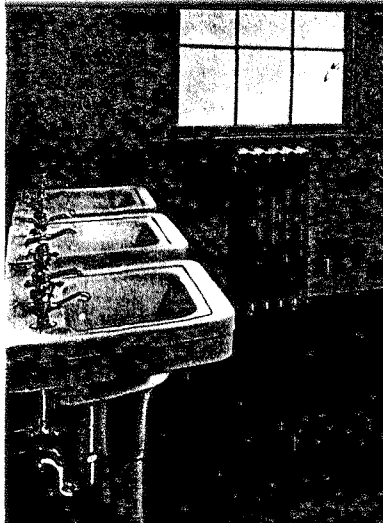


The oil industry demands many kinds of valves. Crane supplies all types.

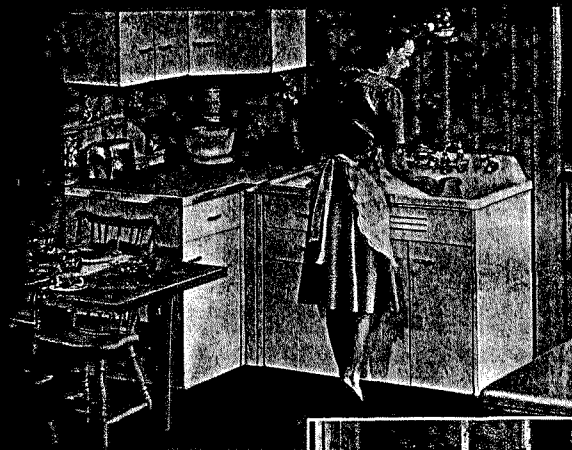
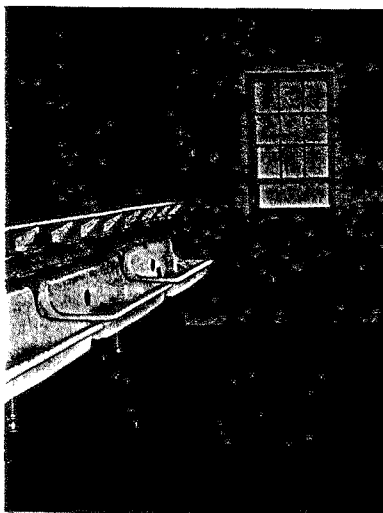
Night is turned into day with the aid of Crane valves and fittings installed in this midwestern light and power plant.

A picture commonly found in industrial plants: Every valve in the piping system says "Crane."

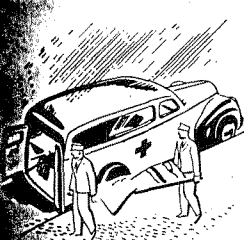




Army and Navy barracks, which are being rushed to completion to house America's defense forces, require large quantities of plumbing and heating equipment to help keep trainees physically fit. Typical Crane installations in such barracks are pictured here.



Modern Crane sinks and cabinets permit ideal arrangement and efficiency in kitchens.



Hospitals of all types use Crane equipment to maintain the high standard of sanitation.



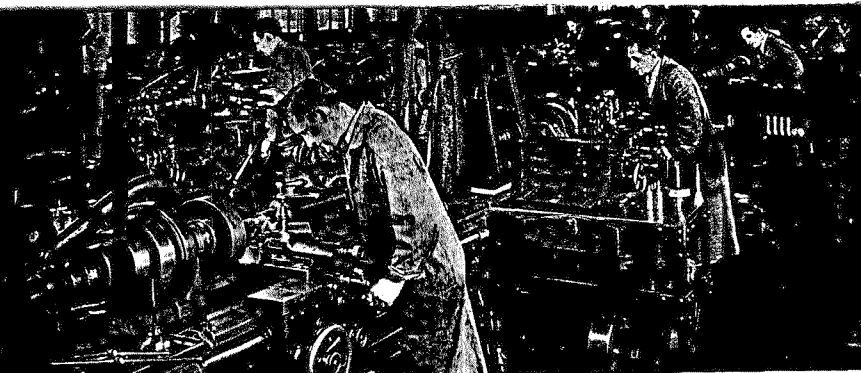
To the small home buyer, Crane offers a wide selection of smartly matched design bathroom fixtures at prices well within his building budget.

MANUFACTURE AND DISTRIBUTION OF CRANE PRODUCTS

THE more you study the Crane manufacturing and distributing organization, the greater becomes your respect for a company that can produce so many things of such essential character, and deliver them wherever and whenever they are needed by so many people.

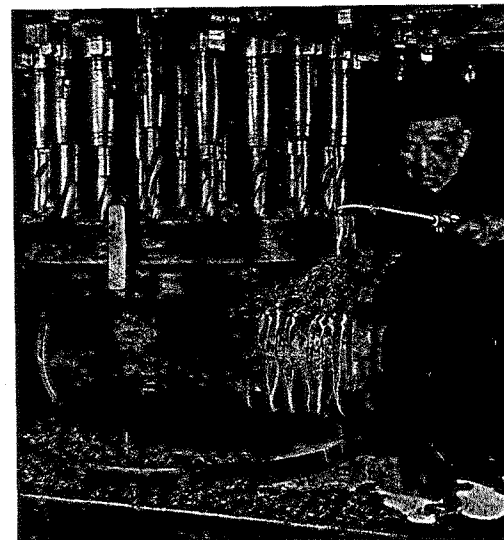
Think of the physical units in

this industrial machine, the plants equipped for time and cost-cutting production and the hundreds of branch and wholesaler outlets through which the products reach users; and the human units, the thousands of men and women, whose dexterity, experience and loyalty make possible the operation of so complex a machine.



Countless machining operations prepare the thousands of individual parts for assembly into Crane valves.

Drilling bolt holes in the end flanges of an iron gate valve body.

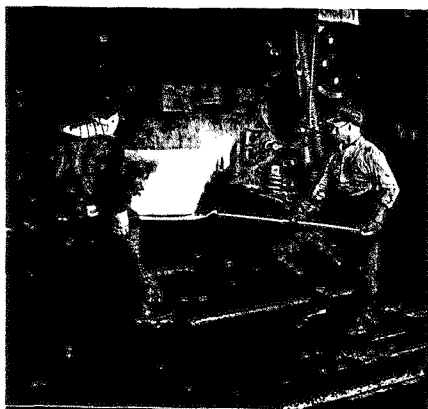


View of a Crane pipe fabricating shop where modern equipment permits the shaping and welding of the most complex assemblies.

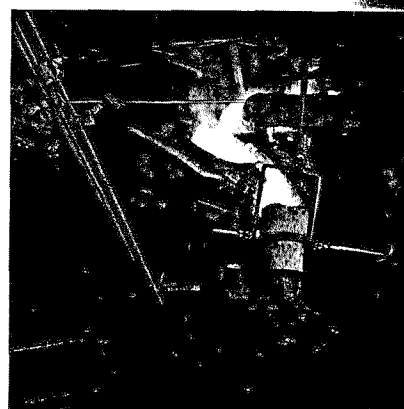


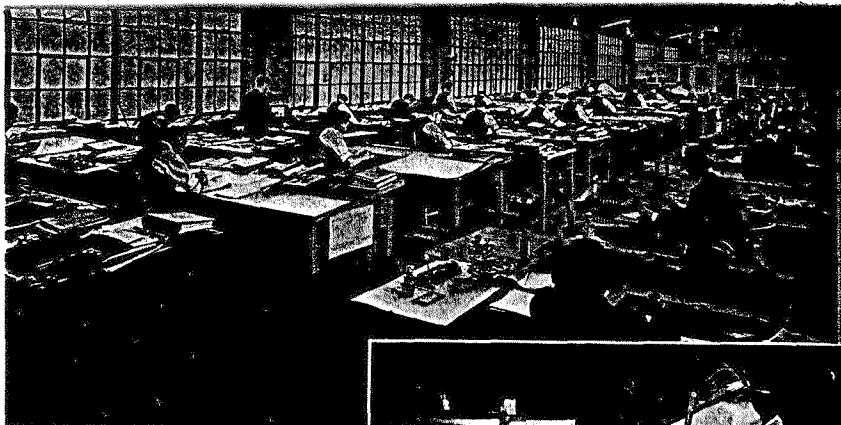
Main section of a moulding floor in Crane steel foundry.

Forging steel flanges with a 22,000-lb. hydraulic hammer.



Pouring from one of the cupolas in the malleable iron foundry.



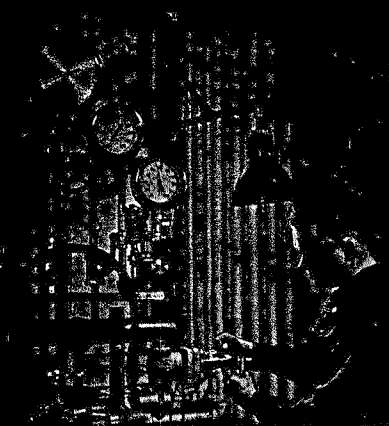


One of the departments in the design engineering division where special problems are resolved.



A welding operation on a special assembly in one of the fabricating shops.

Like Crane valves, Crane fittings are checked at every stage of production. Here at final inspection where each fitting is closely examined, the scrap pile gets the benefit of any doubt.

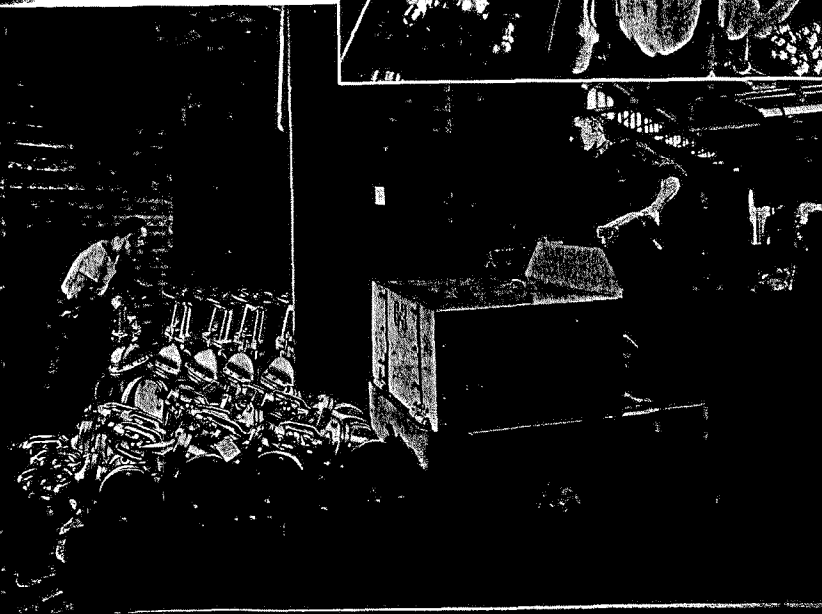


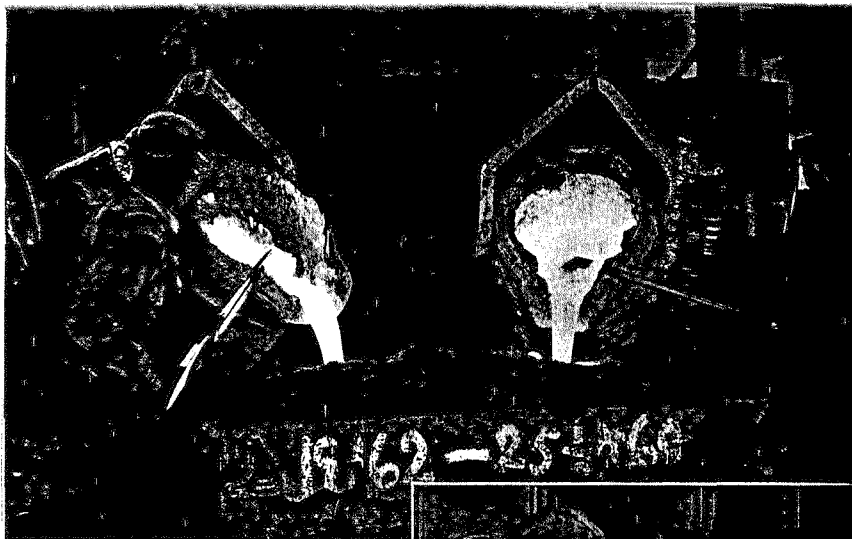
Among the many types of equipment for insuring quality in Crane valves is this elaborate pressure testing rack.

Along this conveyor belt operators assemble and test brass valves.



Many carloads of finished products are shipped from these loading platforms daily. A separate platform serves a steady stream of trucks.

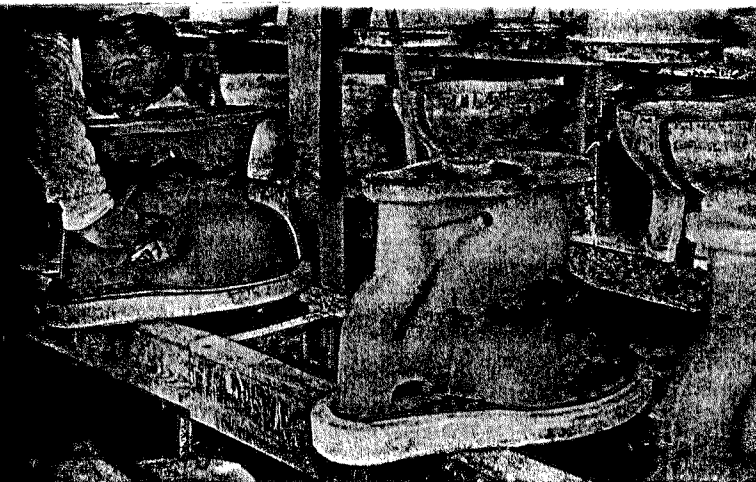
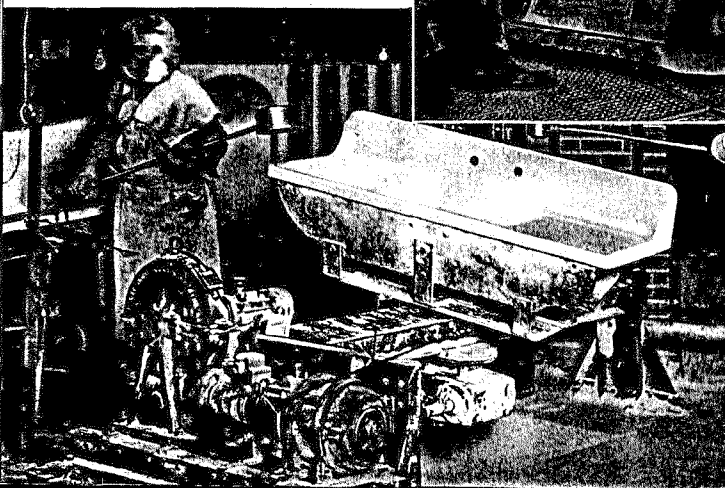




Pouring liquid iron into molds to form the base of Crane porcelain enameled cast-iron.

Sandblasting a Crane sink casting to prepare its surface for enameling.

Here the first coat of enamel is applied to the sink casting. The next step takes it to the baking ovens.

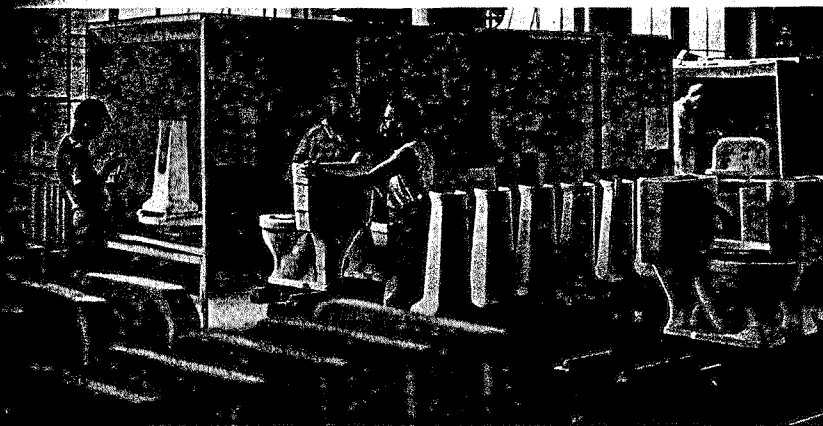


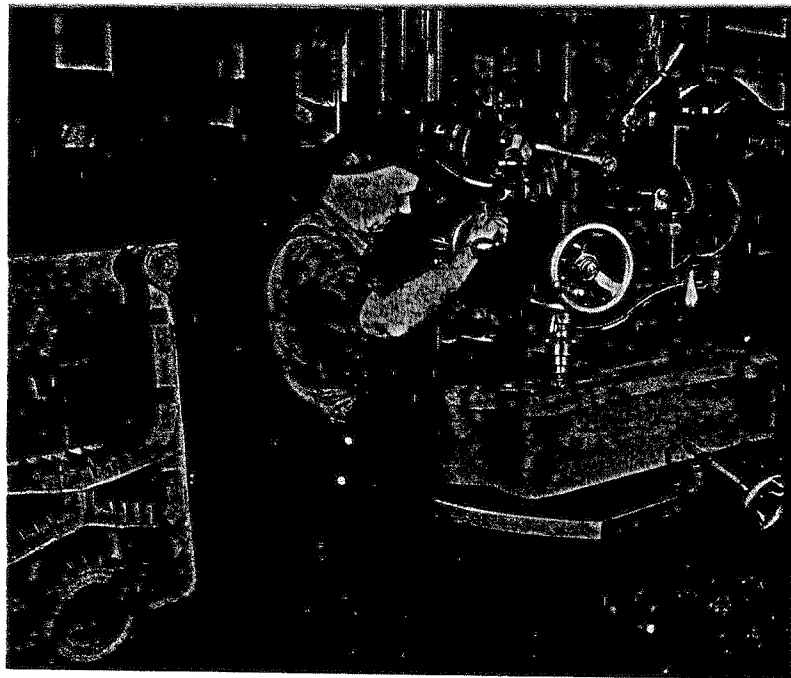
Finishing clay castings preparatory to drying and firing them into china closets.



Huge grinding wheels smooth and finish the rims of Crane china fixtures.

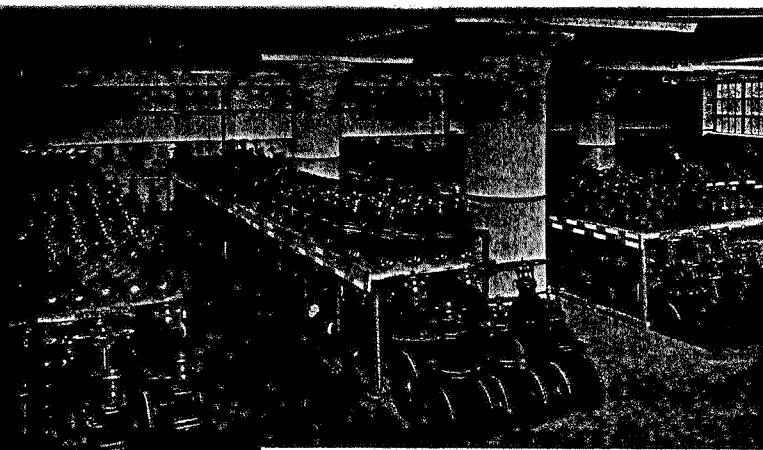
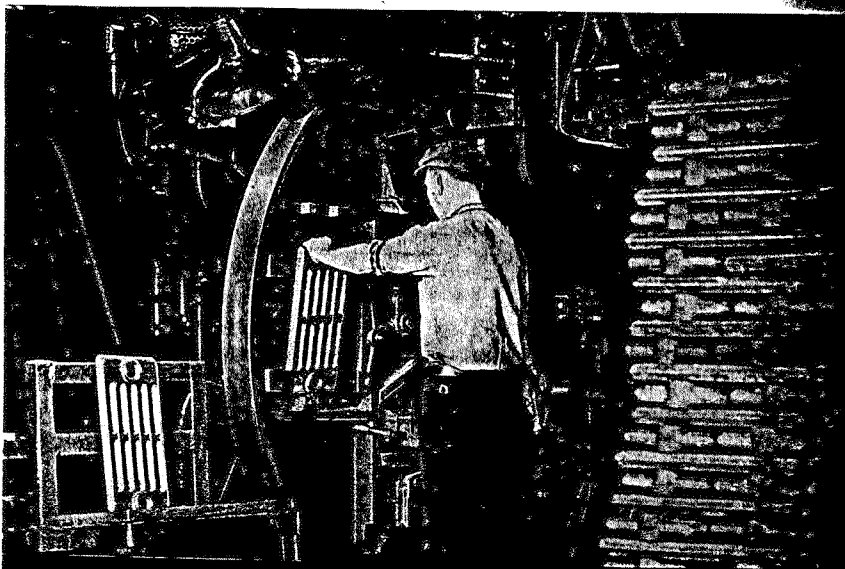
Applying color to Crane china plumbing fixtures with spray guns.



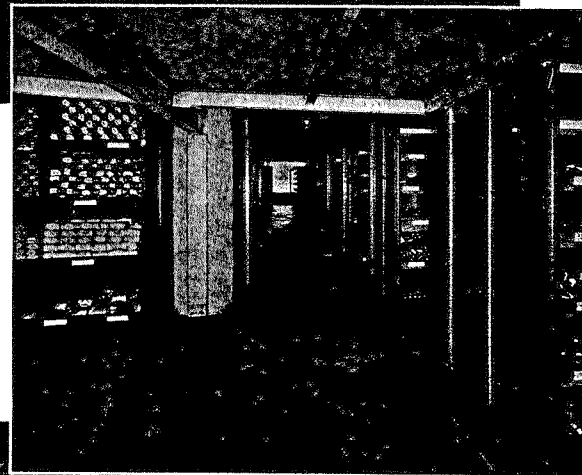


Drilling connecting bolt holes in boiler sections.

Facing and tapping radiator sections for assembly.



Three typical views in Crane branches, showing the large volume in which valves, fittings and other products flow out to customers.



Locations of BRANCHES IN U. S. AND CANADA

AberdeenSouth Dakota	HarlingenTexas	PortlandOregon
AlbanyNew York	HartfordConnecticut	ProvidenceRhode Island
AlbuquerqueNew Mexico	HempsteadNew York	PuebloColorado
AshevilleNorth Carolina	HollywoodCalifornia	
AtlantaGeorgia	HoustonTexas	QuebecQuebec
AuroraIllinois		
BaltimoreMaryland	IndianapolisIndiana	ReadingPennsylvania
BeaumontTexas	JacksonMichigan	ReginaSaskatchewan
BillingsMontana	JacksonMississippi	RenoNevada
BinghamtonNew York	JacksonvilleFlorida	RichmondVirginia
BirminghamAlabama		RochesterNew York
BoiseIdaho	Kansas CityMissouri	RockfordIllinois
BostonMassachusetts	KingstonOntario	SacramentoCalifornia
BridgeportConnecticut	KnoxvilleTennessee	
BuffaloNew York		St. John'sNewfoundland
	LexingtonKentucky	St. LouisMissouri
CalgaryAlberta	LimaOhio	St. PaulMinnesota
CamdenNew Jersey	Little RockArkansas	Salt Lake CityUtah
CantonOhio	LondonOntario	San AntonioTexas
CasperWyoming	Long BeachCalifornia	San BernardinoCalifornia
CharlestonWest Virginia	Los AngelesCalifornia	San DiegoCalifornia
CharlotteNorth Carolina		San FranciscoCalifornia
ChattanoogaTennessee	MaconGeorgia	Santa AnaCalifornia
ChicagoIllinois	MadisonWisconsin	Santa BarbaraCalifornia
CincinnatiOhio	MankatoMinnesota	SaskatoonSaskatchewan
ClevelandOhio	Mason CityIowa	SavannahGeorgia
ColumbusOhio	MemphisTennessee	ScottsbluffNebraska
Corpus ChristiTexas	MiamiFlorida	SeattleWashington
	MilwaukeeWisconsin	ShreveportLouisiana
DallasTexas	MinneapolisMinnesota	Sioux CityIowa
DavenportIowa	MobileAlabama	Sioux FallsSouth Dakota
DenverColorado	MonctonNew Brunswick	South BendIndiana
DetroitMichigan	MontrealQuebec	SpokaneWashington
DuluthMinnesota	MuncieIndiana	SpringfieldIllinois
	MuskogeeOklahoma	SpringfieldMassachusetts
East ChicagoIndiana		SyracuseNew York
EdmontonAlberta	NashvilleTennessee	
El PasoTexas	NewarkNew Jersey	TacomaWashington
EugeneOregon	New HavenConnecticut	TampaFlorida
EvanstonIllinois	New OrleansLouisiana	Terre HauteIndiana
EvansvilleIndiana	New YorkNew York	ToledoOhio
	NorfolkVirginia	TorontoOntario
FargoNorth Dakota		TrentonNew Jersey
FlintMichigan	OaklandCalifornia	TucsonArizona
Ft. LauderdaleFlorida	OgdenUtah	TulsaOklahoma
Ft. SmithArkansas	Oklahoma CityOklahoma	
Fort WilliamOntario	OmahaNebraska	UticaNew York
	OshkoshWisconsin	
Grand IslandNebraska	OttawaOntario	VancouverBritish Columbia
Grand JunctionColorado		VictoriaBritish Columbia
Grand RapidsMichigan	PasadenaCalifornia	
Great FallsMontana	PhiladelphiaPennsylvania	WashingtonD. C.
GreensboroNorth Carolina	PhoenixArizona	WaukeganIllinois
GreenvilleSouth Carolina	PittsburghPennsylvania	West Palm BeachFlorida
	PocatelloIdaho	White PlainsNew York
HalifaxNova Scotia	PomonaCalifornia	WichitaKansas
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