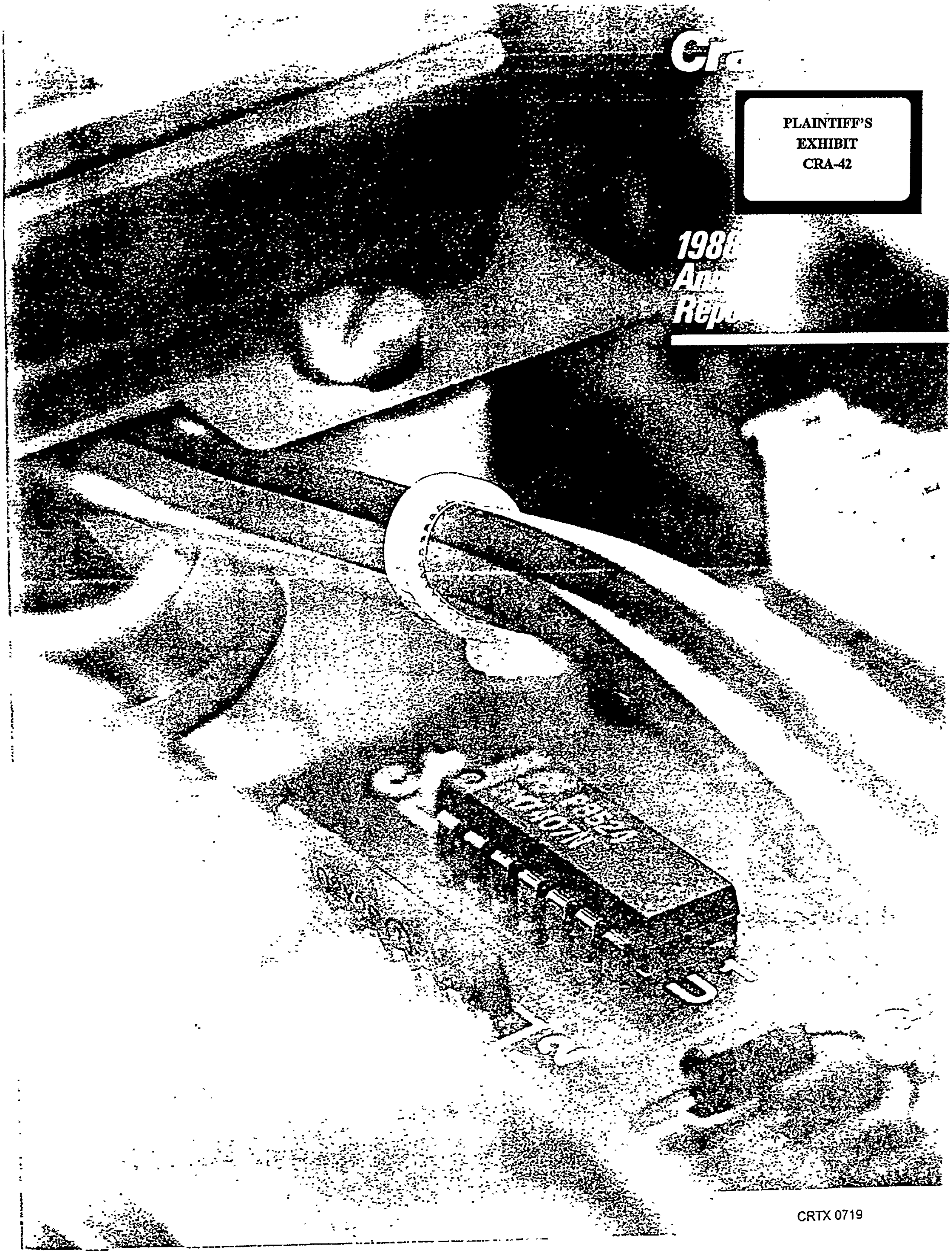

Crane Co.

Founded in 1855, Crane is a diversified manufacturer and distributor of products for home, industry and national defense. The company employs over 10,000 people in plants and facilities in the United States and Canada and countries around the world. Sales are balanced among the aerospace, defense and building businesses as well as engineered products for industry.

Cover

Close-up photograph of a small section of the microprocessor controlled electronics system on the National Vendors Shopper[illegible] vending machine.

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Financial Highlights

(In thousands)	1988	1987	1986	1985	1984
Net Sales	$1,313,136	$1,099,596	$1,043,718	$960,702	$655,297
Operating Profit	95,666	75,130	75,044	38,394[d]	46,298
Income before Taxes—Continuing Operations	81,490	58,541	55,305	20,945	38,964
Income Taxes	(32,304)	(25,837)	(26,520)	(6,360)	(9,573)
Income from Continuing Operations[a]	$ 49,186	$ 32,704[c]	$ 28,785	$ 14,585	$ 29,391
Per Share (Fully Diluted):[b]					
Income from Continuing Operations[a]	$ 2.17	$ 1.41[c]	$ 1.30	$ .71	$ 1.29
Cash Dividends Declared	.92½	.87½	.78	.71	.70
Average Fully Diluted Shares Outstanding	22,699	23,872	24,867	21,931	22,811

(a) Excludes income from segment distributed to shareholders of $13,297 ($.56 per share) in 1988, $20,909 ($.88 per share) includes $3,329 or $.14 per share from a cumulative effect of a change in accounting) in 1987, $9,593 ($.39 per share) in 1986, $3,012 ($.13 per share) in 1985, and $1,574 ($.07 per share) in 1984.

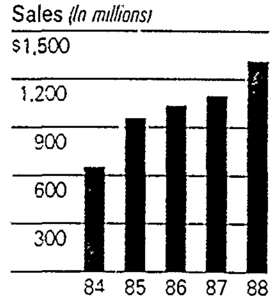
(b) Adjusted for three-for-two stock split in 1987, 50% stock distribution in 1986 and 2% stock dividends in prior years.

(c) Income before cumulative effect of a change in accounting of $5,673 ($.24 per share).

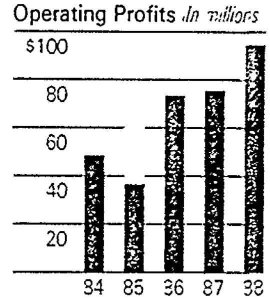
(d) Includes charge for nonrecurring restructuring costs in the amount of $25,4[illegible].

Continuing Operations

Sales *(In millions)*

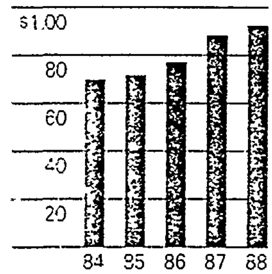


Operating Profits *(In millions)*

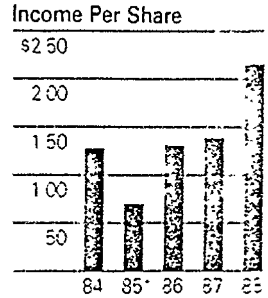


1985 is before $25.4 of non-recurring restructuring costs

Dividends Per Share



Income Per Share



* Includes pre-tax charge for non-recurring restructuring costs of $25.4 million

Letter to Shareholders

Dear Shareholders:

Crane Co. had an excellent year in 1988. Improved results from our Engineered Industrial Products segment increased earnings from continuing operations to $49.2 million, 50% over 1987. Sales increased 19% to $1.3 billion. Fully diluted earnings per share increased 54% from $1.41 to $2.17, *excluding $.58 per share* earned by Medusa for nine months in 1988. On the same basis, cash flow, which consists of earnings plus depreciation and non-cash charges, was $3.46 compared to $2.55 per share in 1987. Our return on equity—including Medusa for nine months—was 24%, which exceeded our goal of 20% for the third consecutive year. Corporate expenses were slightly over our goal of 1% of sales, largely due to the Restricted Stock Plan and the Medusa distribution.

Crane's Responsibility to Shareholders

Crane management's primary objective is to maximize the long-term value of the investment of our shareholders. During 1988, Crane distributed .45 of a Medusa Corporation common share for each share of Crane. Medusa paid Crane an $84 million dividend, which was equal to its net worth, so Crane's equity was not affected while the Crane shareholders received approximately $6.38 per share in Medusa stock, tax-free. This transaction was equivalent to selling Medusa for approximately $310 million on a taxable basis.

During 1988, Crane purchased 1.1 million shares for $27.6 million or an average of $21.90 per share after adjusting for the Medusa distribution, and in 1987 the equivalent of 1.7 million shares were purchased at a cost of $42 million or an average of $17.62 per share adjusted for the Medusa distribution and a 3-for-2 stock split in 1987. We will continue to purchase Crane stock when it is clearly a good investment.

In November, we raised our dividend by 11%, the fourth increase in the last five years. It is our policy to pay out a relatively high percentage of earnings, since the tax laws treat capital gains the same as dividends.

Robert S. Evans, Chairman,
Chief Executive Officer and President.

In connection with the goal of long-term value creation, the Crane Board of Directors issued 323,000 shares of restricted stock to key management employees. The purpose of the restricted stock was threefold: one, to retain key management because it vests over five years; two, to provide a direct link between management and shareholders' interest; and three, to offer competitive compensation and benefits. I believe that this plan, combined with the use of stock options and stock appreciation rights, has been an important contributor to the performance we have achieved.

It should be mentioned that over the past five years, Crane has achieved a total compound annual rate of return to shareholders of 26% versus the S&P 500's of 15%. The total return for 1988, including the Medusa distribution was 44%.

During the past five years, we have sold or spun off businesses which were capital-intensive, commodity-oriented or did not fit the objective of being significant players in niche markets. These transactions created approximately $291 million in capital, which was returned to our shareholders or reinvested. During the same period we made eight acquisitions at a net cost of $255 million. In 1988, these businesses generated an operating profit of $34 million and pre-tax cash flow of $50 million.

Hydro-Aire field service engineer inspecting the wheel speed transducer circuits that provide wheel/brake performance information to Hydro-Aire anti-skid control.

Operations

Crane reports its results in two segments which break the business up between industrial product manufacturing and wholesale distribution.

The *Engineered Industrial Products* segment consists of a number of separate businesses which have high engineering content, serve industrial markets—mostly other manufacturers—have high market share, relatively low level of capital needs and low fixed costs. The economic factor which drives this segment is capital spending. However, these businesses generally have a high level of spare or replacement parts sales which tend to be counter cyclical. Also, because we are a multi-product company serving a number of different industries, the weakness in some of those industries—such as the oil industry, a big user of valves—is offset by strength in others—such as commercial airplanes, Hydro-Aire's market.

The *Wholesale Distribution* segment consists of two businesses, Huttig Sash & Door Company and Crane Supply Canada. Huttig is the leading nationwide wholesale distributor of millwork products, windows, doors and mouldings. As a specialty distributor with value added products, Huttig has traditionally achieved higher margins on sales and returns on capital than other building product distributors. While new housing starts are important to Huttig, nearly 50% of the business is repair and remodeling, which is a great deal less cyclical than housing starts. Crane Supply Canada is a nationwide distributor of industrial supplies and plumbing products.

Personnel

Reflecting the improved operations in the Engineered Industrial Products segment, Jack Barnes and Robert Muller were appointed Executive Vice Presidents of Crane in October. The contributions of both these key executives have been outstanding, and these appointments reflect their increased responsibilities. Another key addition to our management was Robert Harris, President of Ferguson.

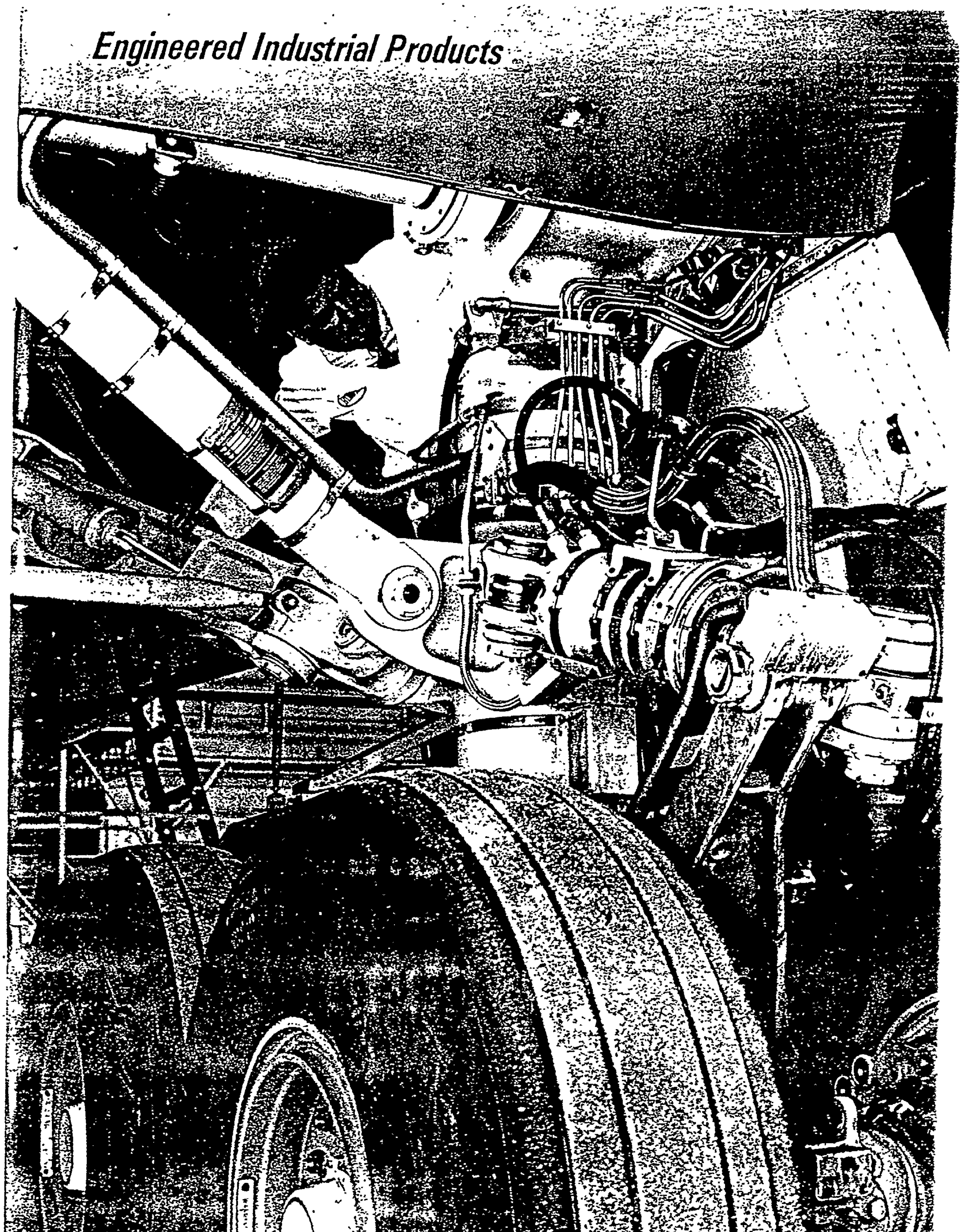
I would like to thank all our employees who have contributed to our excellent 1988. Crane enters 1989 with a very strong management team and an equally solid financial position. We are confident that the progress achieved will continue in 1989.

Sincerely,

R.S. Evans

R.S. Evans
Chairman, Chief Executive Officer
and President

February 27, 1989


Engineered Industrial Products

The United States *Valve Division* continued its strong improvement in sales, with a substantial reduction of the operating losses suffered in 1987. Although commercial/construction markets have remained static, aggressive marketing and sales efforts have enabled Crane to increase market share. The growth of OEM sales of cast iron valves has re-established Crane in this market and enabled the Washington, Iowa plant to operate more efficiently. The resurgence of the chemical, pulp and paper, and refinery industries has helped raise the demand for Aloyco Stainless Steel Valves, as well as the cast steel valve line.

Valve Services Unit is responsible for the complete valve aftermarket. They repair and recondition valves in a variety of markets now experiencing an upturn due to increased capacity utilization.

Valve Systems and Controls is an industrial distributor supplying automated valves and complete systems to industry. Expanded operations in 1988 to four locations and a surge of new construction of chemical plants in the Gulf Coast area contributed to increased sales.

The *Chempump Division* is the world's leading manufacturer of canned motor pumps as well as a complete line of metering pumps and engineered control valves.

Chempump had significantly higher sales as a result of operational changes and improvements begun in 1987 and carried into 1988. On time delivery performance improved dramatically and major product introductions and improvements were carried out during the year, including a new magnetic drive seal-less pump and a line of self-priming leakproof pumps. In July, Chempump acquired Pittsburgh Process Machine and Repair Co., of Eureka, West Virginia, which became the Midwest Service Center, with 20,000 square feet of capacity.

Deming manufactures standard pumps for general industrial and municipal use. A revamped distribution network has successfully moved Deming toward exclusive and more committed distributors. Sales increases were mainly the result of increased penetration and share in selected OEM and industrial niche markets. A redesigned turbine pump line gained market penetration with additional designs forthcoming in 1989.

Cochrane Environmental Systems designs and markets water and wastewater treatment equipment for the pulp and paper, power generation, chemical and other industries. Cochrane's performance has improved significantly since 1986 with bookings and sales steadily rising. Changing markets have indicated the need to develop new opportunities and reduce reliance on capital intensive markets.

Hydro-Aire provides the commercial, general aviation and military sectors of the aircraft market with an extensive line of products including fuel pumps; hydraulic valve modules; and electronically controlled, anti-skid braking systems, where they are world leaders.

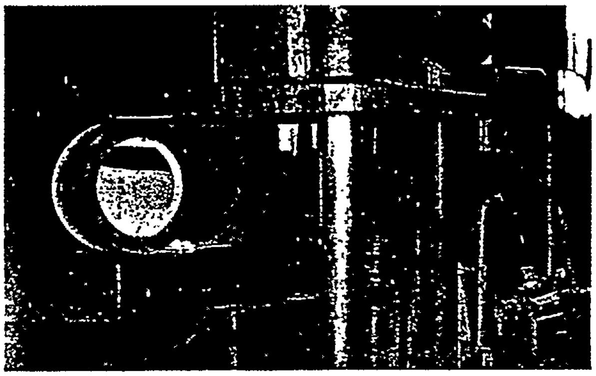
In 1988, the commercial aviation market expanded with orders for new aircraft. Boeing and McDonnell Douglas, traditional Hydro-Aire customers, achieved record sales in advanced derivatives of the Boeing 737, 747, 757 and 767 aircraft, and Douglas MD-80 and MD-11 series aircraft. It is significant to note that Hydro-Aire provides the anti-skid systems and, in some cases, fuel boost pumps and hydraulic valve assemblies for most of these aircraft.

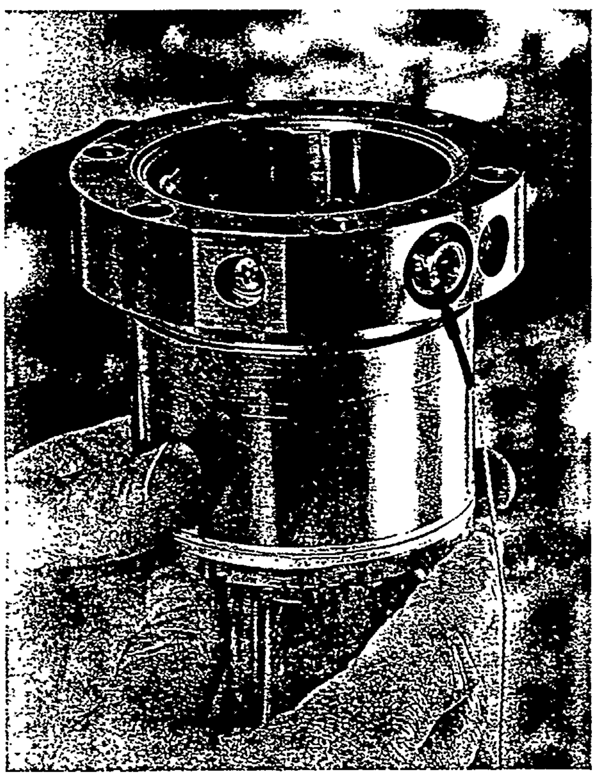
CRTX 0726

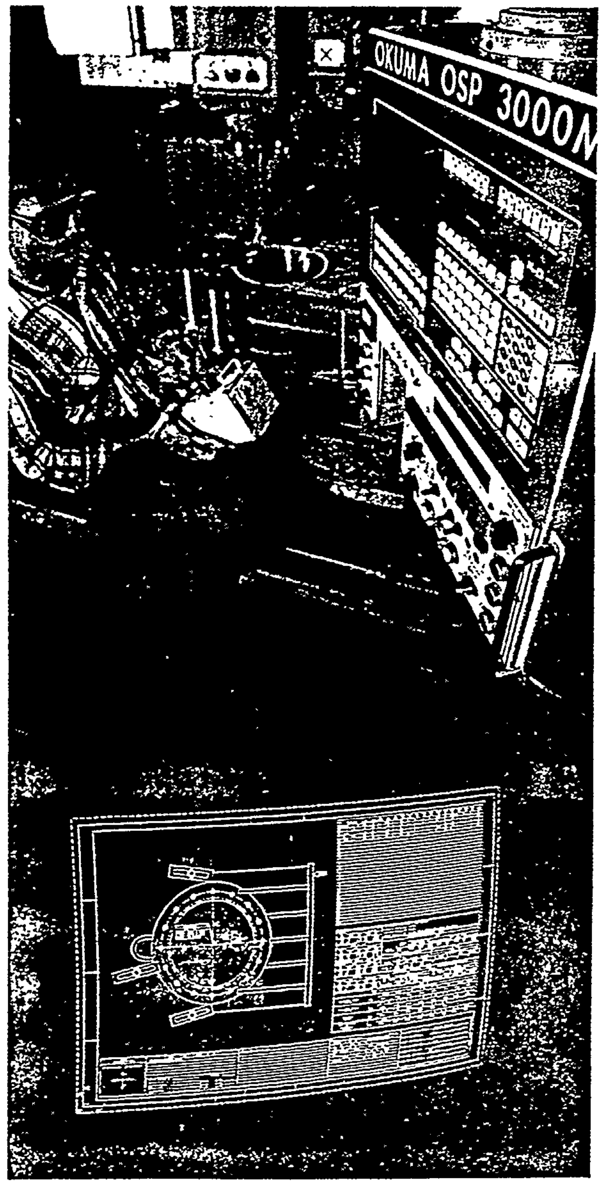
High nickel alloy elbow being formed at Crane Midwest plant.

Unidynamics/Phoenix motor safe and arm device ignites the solid propellant rocket motor of the SRAM II.

Programming of CNC machine at Crane Defense Systems using a CAD/CAM system with an in-house developed program.







The extraordinary growth in the commercial market more than offset the drop in the military and general aviation areas. Reduction in defense spending caused the military business of Hydro-Aire's market to fall off. However, contracts to supply braking controls to two critical military programs have provided a high degree of optimism that military sales will improve into the '90s. The general aviation market began to show signs of recovery as new and upgraded models of the popular executive class aircraft are starting to come on line.

National Vendors is the leading manufacturer of electronic vending machines for snacks, hot and cold drinks, food and cigarettes, as well as currency and coin changers. In 1988 National Vendors' market share increased significantly, a direct result of the many new vending machines successfully introduced during the past two years, including the well received Shoppertron food merchandiser. In 1988, two new machines were introduced, a snack unit, and a coffee maker that individually brews each cup of coffee starting with the bean. This new "Beaner" machine is selling at a faster rate than anticipated, after attracting a great deal of interest when introduced at the industry-wide National Automatic Merchandising Association show. Expansion into new markets such as small offices, and the establishment of a vending machine service organization to service all machines, are examples of additional market opportunities.

Kemlite is the leading supplier of fiberglass reinforced plastic panels to the transportation industry. The increase in the price of aluminum in 1988 helped boost sales of Glasbord laminates for trailer roofs as a replacement for aluminum. Many large trailer builders have already switched, while others are in prototype programs using Glasbord. After an extended marketing effort, the sale of automotive finish siding for use on recreational vehicles is starting to gain acceptance with some of the larger builders. Additional opportunities are being exploited in construction markets.

CorTec is the number one manufacturer of fiberglass reinforced laminates to the trailer, truck body and marine industry. A major supplier of laminates to U-Haul International and other large transportation companies, CorTec doubled last year's backlog at year end. Other opportunities have reemerged, moving CorTec into the manufacture of highway signs and possible entrance into the European market.

Polyflon manufactures microwave substrate materials and high-voltage, high-frequency capacitors for use in the communications, aerospace and medical industries. One of Crane's smaller operations, it continued to increase its position as a supplier of components and materials to the growing nuclear magnetic resonance (NMR) imagers market. In 1988, sales to this market almost doubled compared to 1987.

Ferguson designs and produces precision indexing devices, parts handling systems, automated special purpose machines and cam-actuated parts handling devices.

1988 saw a particularly strong capital goods market along with exceptional growth of the machine tool industry. The latter resulted in a marked increase in orders for precision rotary tables where Ferguson is the industry leader. Ferguson's electronic indexers and positioning devices continue to gain increasing acceptance in the new marketing areas of packaging and containers

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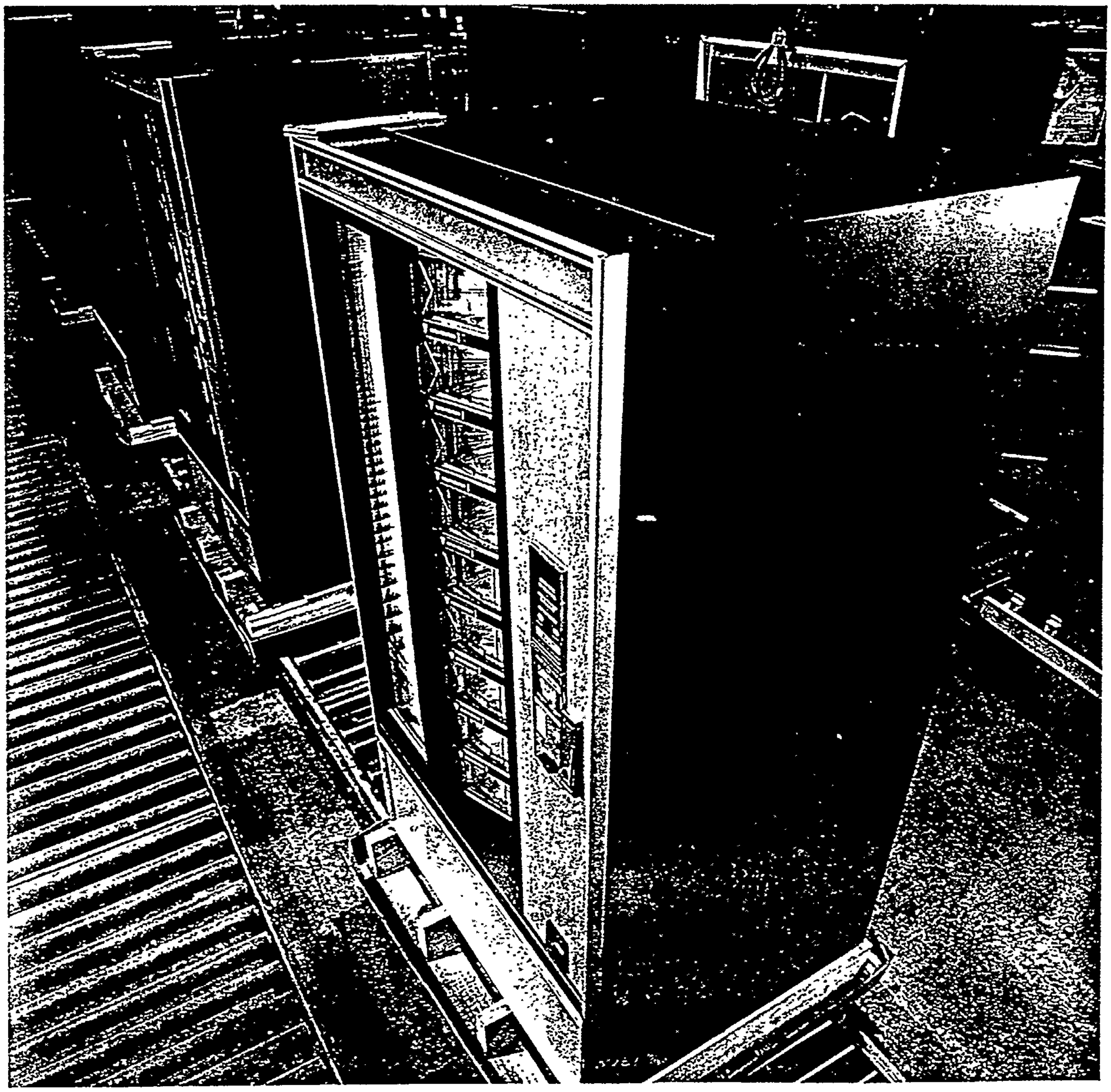
National Vendors Shoppertron food merchandiser vending machine, ready for packing and shipment.



as these industries move to sophisticated digital controls and continuous processes. Two new, smaller pick-and-place parts handlers were introduced for applications where users are responding to Ferguson's concept that automation also offers advantages to smaller manufacturers.

Ferguson's European operations continued to expand their sales as a result of increased marketing efforts and market coverage. The original Ferguson plant in Munich was closed and production moved to a new, highly efficient plant in the same city. This larger facility makes it possible to offer more products tailored specifically to the European market and possible expansion into Eastern Bloc countries in 1989.

Resistoflex/Industrial is a leading supplier of corrosion resistant plastic-lined pipes and fittings, valves, expansion bellows, underground gasoline hoses and reaction vessel components. A strong upturn in Resistoflex's major markets, the chemical and pharmaceutical industries, contributed to excellent sales growth.In this, the first full year in the new Marion, North Carolina plant, aggressive marketing and operating efficiencies generated considerable momentum going into 1989.

Resistoflex/Defense is a leading manufacturer of separable, high-performance fittings for use on military aircraft and aircraft engines. After a year of start-up problems at the Jacksonville, Florida facility, 1988 brought a good increase in sales and a return to profitability by the end of the year. Reaction to the re-entry of Resistoflex into the hose market has been positive across the customer base. Improved customer service, cost control, and quality should insure the future success of this business.

Unidynamics/Phoenix designs and manufactures precision ordnance and related electromechanical and electronic devices for the Departments of Energy and Defense.

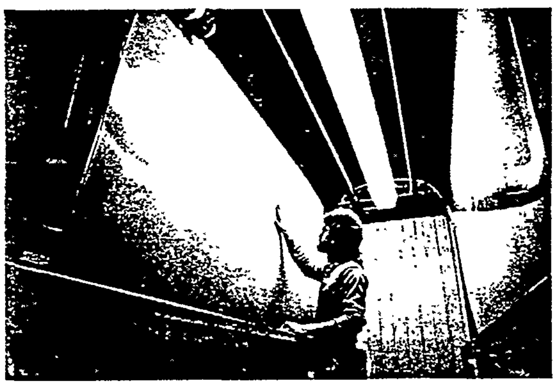
The year produced a few new major engineering programs involving the Short Range Attack Missile (SRAM II), Small Intercontinental Ballistic Missile (SICBM) and many covert special access programs. These research and development programs are long-range funded and will contribute to the sales growth at Phoenix into the 1990's. During the year, mature aerospace and defense involvement, such as Trident D-5, Air-Launched Cruise Missile (ALCM) and various nuclear programs continued. The result was that 1988 showed improvement in both sales and order backlog.

Crane Defense Systems designs and manufactures handling and launching systems for naval shipboard and other specialized applications for the United States and foreign military services. Current programs include continued production and support of the Tomahawk Armored Box Launching system, production of handling and storage equipment for naval towed array sonar systems and a new shock mitigating torpedo handling system. This concept is now under review by the Navy. Despite continued pressure to reduce the defense budget, the outlook for 1989 is promising with awards expected for follow-on programs to existing contracts and vigorous pursuit of such programs as underwater mine detection handling systems and the marketing of shock mitigating torpedo handling equipment as retrofit on existing vessels.

Crane Midwest designs and manufactures equipment for military and commercial shipbuilding applications such as cargo and personnel elevators, *CorTec's smooth, seamless surface enhances the brilliance of trucks for image-conscious U-Haul International.*

Inspection loop at Kemlite plant manufacturing Glasbord-RS smooth FRP paneling for use on recreational vehicles.

Isostatic liner moulding process at Resistoflex/Industrial provides high-quality PTFE liner with strict control over wall thickness.



cranes, hoists and boat davits. Special welding fittings are manufactured for use in Navy nuclear propulsion systems, power generation plants and oil and gas pipeline projects. An improvement in new orders commenced early in the year with awards for Navy nuclear propulsion fittings for a Nimitz class aircraft carrier and Los Angeles and Ohio class submarines. Follow-on contracts were received for elevators and equipment for various Navy ships. This made 1988 one of the strongest for new orders in recent years.

Canada

Crane Canada, through two manufacturing divisions, operates in most sectors of the residential, commercial and industrial construction markets. The *Plumbing Division* manufactures and markets a diversified line of high-quality plumbing products with a strong share of total industry sales. The Division continues to experience success with their vitreous china and acrylic fixtures, as well as plumbing brass. The introduction of new product lines continues to be the most important strategy in maintaining and increasing market share. Increases in the renovation market coupled with opportunities resulting from the Canada/U.S. Free Trade Agreement will provide Crane Canada with additional markets.

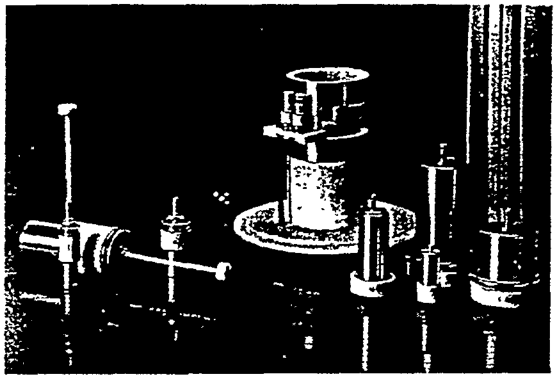
The *Valve and Industrial Division* designs, purchases, manufactures and markets a wide variety of valves to control water, steam, pulp stock, chemicals and other fluids. Sales in 1988 were impressive, with steel and bronze valves leading the way. Waterworks and sewer construction remains strong, and pulp and paper capacity utilization remains high.

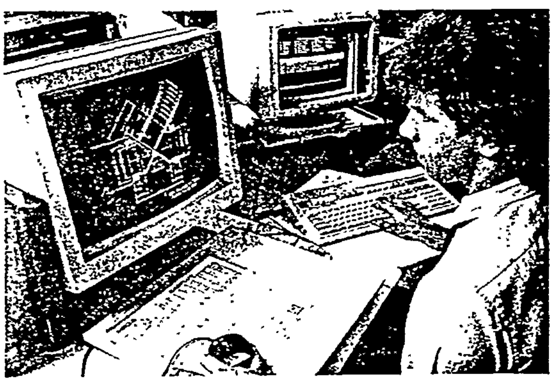
Truck being loaded for delivery at a Huttig Distribution Center

Polyflon products for the growing medical imaging market.

The "Phoenix Collection," a line of bathroom fixtures recently introduced by Crane Canada's plumbing division.

Computer aided design equipment in use at Crane United Kingdom's Fluid Systems engineering department.





International

Crane Limited, United Kingdom continues to develop its three business units. *Crane Fluid Systems* concentrates on the manufacture of valves, pumps and pipe fittings for heating and ventilating applications. Two new valve product lines were successfully introduced. New cost-efficient melting facilities for bronze valve manufacture were commissioned without any loss of production. A sales branch was established in West Germany as a start in the development of a broader European strategy.

Crane Industrial expanded its industrial maintenance service activities with the acquisition of a specialist heat exchanger refurbishing company. This is a growing market, as companies look for established, reliable third parties to carry out this maintenance. The manufacture of fire-set pump packages has grown from nothing five years ago to a 25% UK market share in 1988. Now, efforts are being made to expand into the European market.

Blackett Hutton is a small steel foundry handling low volume medium-to-high-integrity steel castings. In a market where capacity exceeded demand, Blackett Hutton retained its market share in 1988.

Crane Australia Pty., Limited manufactures and supplies valves to Australia, New Zealand and related markets. Industrial disputes on the waterfront during the year significantly affected imports of raw materials. A higher backlog at the end of the year resulted, although sales were close to 1987 levels.

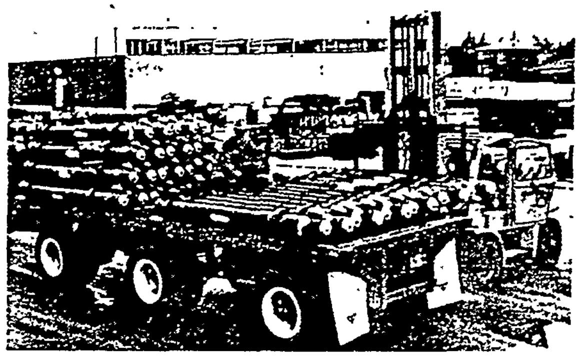
Wholesale Distribution

Huttig Sash & Door Company is the largest nationwide distributor of millwork, windows, doors and related products in the United States. Huttig also operates a sawmill and millwork component factory in Montana, and a wood window manufacturing and assembly facility in South Carolina.

1988 was a year of rapid expansion for Huttig. In February, the Pozzi-Fenati Millwork Company with two distribution centers in California, one each in San Francisco and Los Angeles, was acquired. This acquisition marked the initial entry of Huttig into the West Coast market, projected to be an important growth area for the next decade. This California acquisition brought Huttig knowledge of the window business in California and led to the decision to open three retail window stores to service contractors and consumers. Windows sold in these stores were assembled in a new assembly operation in Fresno, California from components manufactured at the Missoula, Montana factory. These new operations exemplify Huttig's marketing strategy of vertical integration and the plan to increase penetration of the remodeling and replacement, as well as new residential construction markets.

Huttig's decision to emphasize vertical growth was continued during the year with the opening of a "prototype store" in Memphis, Tennessee selling direct to the consumer with one stop shopping for replacement, remodeling or new construction buyers. Aptly named "Huttig Windows, Doors & More," the store was opened in October and has supplied valuable knowledge and expertise for further expansion of this new Huttig marketing concept.

Additional expansion took place in June when Huttig acquired Palmer G. Lewis of Auburn, Washington, one of the largest independent wholesale distributors of building



A Crane Supply truck being unloaded at a customer's facility.

products and related materials in the western United States. This acquisition positioned Huttig with 21 distribution outlets in the western geographic markets from Anchorage, Alaska to Phoenix, Arizona. While the initial product offering was somewhat different than the typical Huttig distribution center, a gradual change is taking place at these Palmer G. Lewis facilities with emphasis focused on the Huttig products that traditionally produce a higher gross profit. Additionally, certain administration functions are being consolidated to reduce expenses and improve the profitability at these new units.

The *Crane Supply Division* serves industrial and construction markets with distribution outlets throughout Canada. A major distributor of pipe, valves and fittings to Canada's industry, it is also an important wholesaler of plumbing and heating products. The products handled are produced by Crane Canada and other manufacturers. The demand for industrial products improved considerably in 1988. This, coupled with the continued demand for plumbing products, resulted in a successful year.

Huttig's new retail showroom in Memphis, Tennessee displaying windows, doors, mouldings and more.

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Consolidated Statements of Income

For Years Ended December 31 In thousands except per share data)	1988	1987	1986
Net Sales	$1,313,136	$1,099,596	$1,043,718
Operating Costs and Expenses:			
Cost of sales	1,030,689	860,644	809,410
Selling, general and administrative	167,037	145,555	142,873
Depreciation	19,744	18,267	16,391
	1,217,470	1,024,466	968,674
Operating Profit	95,666	75,130	75,044
Other Income (Deductions):			
Interest expense—net of interest income of $1,730, $1,328 and $3,816 in 1988, 1987 and 1986	(17,112)	(17,772)	(22,834)
Miscellaneous—net	2,936	1,183	3,095
	(14,176)	(16,589)	(19,739)
Income before Taxes—Continuing Operations	81,490	58,541	55,305
Provision for Income Taxes	32,304	25,837	26,520
Income before Cumulative Effect of a Change in Accounting	49,186	32,704	28,785
Cumulative effect of a change in accounting for gain on pension asset reversion, net of taxes of $5,598	—	5,673	—
Income from Continuing Operations	49,186	38,377	28,785
Income from Segment Distributed to Shareholders—			
Medusa Corporation, net of taxes of $6,727, $10,869 and $7,327 in 1988, 1987 and 1986, respectively	13,297	20,909*	9,593
Net Income	$ 62,483	$ 59,286	$ 38,378
Primary Net Income Per Share:			
Continuing Operations:			
Income before cumulative effect of a change in accounting	$ 2.19	$ 1.45	$ 1.40
Cumulative effect of a change in accounting—pension reversion	—	.25	—
Income from Continuing Operations	2.19	1.70	1.40
Income from Segment Distributed to Shareholders—			
Medusa Corporation	.59	.93*	.47
Net Income	$ 2.78	$ 2.63	$ 1.87
Average primary shares outstanding	22,437	22,551	20,578
Fully Diluted Net Income Per Share:			
Continuing Operations:			
Income before cumulative effect of a change in accounting	$ 2.17	$ 1.41	$ 1.30
Cumulative effect of a change in accounting—pension reversion	—	.24	—
Income from Continuing Operations	2.17	1.65	1.30
Income from Segment Distributed to Shareholders—			
Medusa Corporation	.58	.88*	.39
Net Income	$ 2.75	$ 2.53	$ 1.69
Average fully diluted shares outstanding	22,699	23,872	24,367

*Includes cumulative effect of a change in accounting for gain on pension asset reversion of $3,329 ($.15 per primary share and $.14 per fully diluted share), net of taxes of $3,080

See Financial Review

Consolidated Statements of Changes in Common Shareholders' Equity

(In thousands except share data)	Common Shares	Capital Surplus	Retained Earnings	Currency Translation Adjustment	Total Common Shareholders' Equity
At December 31, 1985	$56,853	$ 51,221	$ 65,802	$(16,379)	$157,497
Net income	—	—	38,378	—	38,378
Cash dividends	—	—	(15,883)	—	(15,883)
50% stock distribution, 4,569,495 shares	28,559	(28,559)	—	—	—
Reacquisition of 401,873 shares	(2,511)	(9,756)	—	—	(12,267)
Exercise of stock options, 61,700 shares; and issued for employee benefit plan, 13,202 shares	469	1,519	—	—	1,988
Conversion of debentures, 30,479 shares	190	125	—	—	315
Currency translation adjustment	—	—	—	3,003	3,003
At December 31, 1986	83,560	14,550	88,297	(13,376)	173,031
Net income	—	—	59,286	—	59,286
Cash dividends	—	—	(19,589)	—	(19,589)
Decrease in par value from $6.25 to $1.00 per share, 15,597,357 shares	(81,886)	81,886	—	—	—
3-for-2 stock split, 7,798,679 shares	7,799	(7,799)	—	—	—
Reacquisition of 1,503,327 shares	(3,739)	(38,304)	—	—	(42,043)
Exercise of stock options, 131,398 shares	357	1,780	—	—	2,137
Conversion of debentures, 2,629,810 shares	16,335	57,553	—	—	73,888
Currency translation adjustment	—	—	—	9,014	9,014
At December 31, 1987	22,426	109,666	127,994	(4,362)	255,724
Net income	—	—	62,483	—	62,483
Cash dividends	—	—	(20,468)	—	(20,468)
Distribution of Medusa Corporation common stock	—	—	(131)	—	(131)
Reacquisition of 1,108,484 shares	(1,108)	(26,462)	—	—	(27,570)
Exercise of stock options, 163,292 shares	163	2,261	—	—	2,424
Conversion of debentures, 53,269 shares	53	278	—	—	331
Restricted stock awarded 324,296 shares, net	324	7,431	(6,155)	—	1,600
Redemption of common share purchase rights	—	(738)	—	—	(738)
Currency translation adjustment	—	—	—	972	972
At December 31, 1988	$21,858	$ 92,436	$163,723	$ (3,390)	$274,627

See Financial Review

Consolidated Balance Sheets

At December 31 (In thousands except share data)	1988	1987
Assets		
Current Assets:		
Cash and cash equivalents	$ 40,000	$ 12,615
Short-term investments	1,621	1,809
Accounts receivable, less allowance of $2,273 ($2,077 in 1987)	170,567	141,088
Inventories, at lower of cost, principally LIFO, or market; replacement cost would be higher by $43,199 ($41,092 in 1987):		
Finished goods	141,428	99,531
Work in process	45,229	46,796
Raw materials and supplies	26,429	24,652
	213,086	170,979
Investment in segment distributed to shareholders	—	71,134
Other current assets	6,759	9,630
Total Current Assets	432,033	407,255
Property, Plant and Equipment at Cost:		
Land	23,414	15,977
Buildings and improvements	128,032	114,389
Machinery and equipment	213,975	202,978
	365,421	333,344
Less accumulated depreciation	183,445	168,189
	181,976	165,155
Other Assets:		
Construction funds	3,723	3,567
Intangibles, less accumulated amortization of $16,196 ($11,305 in 1987)	8,193	11,901
Other	13,354	9,952
	25,270	25,420
Cost in Excess of Net Assets Acquired, less accumulated amortization of $3,223 ($2,156 in 1987)	42,461	36,937
	$681,740	$634,767

See Financial Review

	1988	1987
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 14,085	$ 11,333
Loans payable	48,508	24,432
Accounts payable	61,187	52,621
Accrued liabilities	69,121	79,324
U.S. and foreign taxes on income	2,392	1,651
Total Current Liabilities	195,293	169,361
Long-Term Debt	143,133	151,096
Reserves and Other Liabilities	11,667	6,099
Accrued Pension Liability	13,888	17,007
Deferred Income Taxes	43,132	35,480
Preferred Shares, par value $.01, authorized—5,000,000 shares	—	—
Common Shareholders' Equity:		
Common shares, par value $1.00:		
Authorized—80,000,000 shares		
Outstanding—21,858,461 shares (22,426,088 in 1987) after deducting 13,934,658 shares in treasury (12,826,174 in 1987)	21,858	22,426
Capital surplus	92,436	109,666
Retained earnings	163,723	127,994
Currency translation adjustment	(3,390)	(4,362)
Total Common Shareholders' Equity	274,627	255,724
	$681,740	$634,767

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Consolidated Statements of Cash Flows

For Years Ended December 31 (In thousands)	1988	1987	1986
Cash Flows From Operating Activities:			
Income from continuing operations	$ 49,186	$ 32,704	$ 28,785
Depreciation	19,744	18,267	16,391
Other non-cash charges to earnings	9,516	9,960	12,183
Cash provided from (used for) operating working capital	(28,714)	1,857	(9,005)
Dividends received from Medusa	84,300	13,613	9,134
Other	4,489	(2,554)	2,734
Total from Operating Activities	138,521	73,847	60,222
Cash Flows from Investing Activities:			
Capital expenditures	(17,865)	(16,250)	(15,081)
Payments for acquisitions, net of liabilities assumed of $34,169 in 1988 and $1,155 in 1986	(47,558)	—	(31,934)
Disposals of property, plant and equipment	3,334	2,530	4,347
Acquisition of minority interest in subsidiary	—	(7,904)	—
Proceeds from divestitures	—	7,619	870
Disposals of land and water rights	122	1,958	5,031
Total from Investing Activities	(61,967)	(12,047)	(36,767)
Cash Flows from Financing Activities:			
Long-term debt:			
New debt	3,868	18,462	13,774
Repayments	(17,566)	(21,221)	57,415
Dividends paid	(25,544)	(18,538)	(11,858)
Reacquisition of shares	(27,570)	(42,043)	(12,267)
Stock options exercised	2,424	2,137	1,988
Redemption of common share purchase rights	(738)	—	—
Net increase in short-term debt	15,767	5,178	4,973
Total from Financing Activities	(49,359)	(56,025)	60,805
Effect of exchange rate on cash and cash equivalents	190	502	124
Increase (decrease) in cash and cash equivalents	27,385	6,277	(37,226)
Cash and cash equivalents at beginning of year	12,615	6,338	43,564
Cash and cash equivalents at end of year	$ 40,000	$ 12,615	$ 6,338

Detail of Cash Provided from (Used for) Operating Working Capital

	1988	1987	1986
Short-term investments	$ 402	$ (248)	$ 1,002
Accounts receivable	(6,952)	(1,219)	19,868
Inventories	(12,899)	(4,455)	8,265
Other current assets	3,098	(140)	1,795
Accounts payable	(3,892)	917	5,060
Accrued liabilities	(9,305)	7,394	3,233
U.S. & foreign taxes on income	834	(392)	16,633
Total	$(28,714)	$ 1,857	$ 9,005
Supplemental disclosure of cash flow information:			
Interest paid	$ 17,656	$ 19,010	$ 23,722
Income taxes paid	19,852	13,603	15,831

See Financial Review

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Accounting Policies

Principles of Consolidation—The consolidated financial statements include all subsidiaries. Prior year amounts have been restated to reflect the distribution of Medusa Corporation to shareholders on October 7, 1988. All significant intercompany items have been eliminated. Certain prior year amounts have been reclassified to conform with the 1988 presentation.

Statement of Cash Flows—In 1988, the company adopted Statement of Financial Accounting Standards No. 95, and is presenting a statement of cash flows in place of the statement of changes in financial position. Restatement of financial statements for prior years has been provided for comparative purposes. Cash equivalents consist of highly liquid investments with original maturities of three months or less.

Inventories—Inventories are stated at the lower of cost or market principally on the last-in, first-out (LIFO) method of inventory valuation. The effect of inventory quantity reductions was a reduction in cost of approximately $600,000, $5,200,000 and $600,000 in 1988, 1987 and 1986, respectively.

Property, Plant and Equipment—Depreciation was provided primarily by the straight-line method over the estimated useful lives of the respective assets. The double declining balance method of depreciation was used for assets acquired prior to 1985.

Intangibles—Cost in excess of net assets acquired is being amortized on a straight-line basis principally over forty years. Other intangible assets are being amortized on a straight-line basis over their estimated useful lives which average five years.

Income Taxes—The provision for income taxes was, as in prior years, determined in accordance with Accounting Principles Board Opinion No. 11. If the Company had chosen to adopt Statement of Financial Accounting Standards No. 96 in 1988, the change would not have been material. United States income taxes have not been provided on undistributed earnings of foreign subsidiaries since these earnings will be required for indefinite investment and any dividends expected to be paid will be covered by foreign tax credits.

Net Income Per Share—Primary earnings per share calculations are based upon the weighted average number of common shares outstanding after giving effect to dilutive stock options. Fully diluted earnings per share gives effect to the assumed conversion of convertible debentures and the effect of dilutive stock options. All share information has been adjusted to reflect the three-for-two stock split in 1987, the 50% stock distribution in 1986 and 2% stock dividends in prior years.

Revenues—Revenues are generally recorded when title passes to the customer. Revenues on long-term contracts are recognized under the percentage-of-completion method of accounting and are measured principally on either a cost-to-cost or a unit of delivery basis. These contracts represent approximately 5% of sales in any one year.

Acquisitions

In June 1988, Huttig acquired Palmer G. Lewis Co., Inc., one of the largest independent wholesale distributors of building products and related materials in the western United States, for approximately $43.5 million. In addition, Huttig acquired two distribution centers in the Los Angeles and San Francisco areas in February 1988. A canned pump machining and service company was acquired as an addition to Chempump in the Engineered Industrial Products segment in July 1988.

In 1986, the company acquired the assets of PickOmatic Systems Inc., a producer of cam-operated parts handling equipment, as an addition to Engineered Industrial Products. Also, seven wholesale distribution centers in the New England, northern New York, Wisconsin and New Mexico markets were purchased as additions to Huttig.

Each of these acquisitions was accounted for by the purchase method, and the results of operations for each have been included in the financial statements from their respective dates of purchase. Pro forma financial information assuming the acquisition of Palmer G. Lewis had taken place as of the beginning of 1987 is provided below. The remaining acquisitions did not have a material effect on the results of operations.

For the years ended December 31 (in thousands)	1988	1987
Net sales	$1,409,279	$1,316,185
Operating profit	96,634	78,664
Income from continuing operations	48,642	32,309*
Fully diluted income per share from continuing operations	$ 2.15	$ 1.40*

*Income before cumulative effect of a change in accounting of $5,673 ($.24 per share)

Investment Distributed to Shareholders

On October 7, 1988, the company distributed to its shareholders 100% of its cement and aggregates subsidiary, Medusa Corporation, on a tax-free basis to both the company and its shareholders. Immediately prior to the distribution, Medusa paid a special cash dividend to the company of $84.3 million. This transaction reduced the company's shareholders' equity by $131,000.

As a segment distributed to shareholders, the results of Medusa's operations have not been included in the consolidated financial statements. Net sales of Medusa through the date of the distribution in 1988 were $138.7 million and for the full 1987 and 1986 years, net sales were $184.4 million and $160.5 million, respectively.

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Pensions

The company and its subsidiaries have pension plans which cover substantially all of their employees. The plans generally provide benefit payments using a formula based on length of service and final average compensation, except for some hourly employees for whom the benefits are a fixed amount per year of service. The company's policy is to fund at least the minimum amount required by the applicable regulations.

The company adopted Statements of Financial Accounting Standards Nos. 87 and 88 for all domestic plans effective January 1, 1987. The effect of this change in accounting increased pension costs for 1987 approximately $2,300,000, principally due to the fact that the pension reversion credit was no longer available. The pension reversion credit resulted from the reversion of surplus assets in 1985 for the pension plans covering non-bargaining employees of the company and its subsidiary, Huttig Sash & Door Company. Included in income in 1987 as a cumulative effect of this change in accounting was $5,673,000 of the unamortized credit, net of taxes of $5,598,000.

Pension expense relating to company sponsored domestic pension plans in 1988 was $5,413,000 compared to $5,688,000 in 1987 and $2,924,000 in 1986. The components of pension expense for 1988 and 1987 were as follows:

(in thousands)	1988	1987
Service cost-benefits earned during the period	$4,203	$4,902
Interest cost on projected benefit obligation	5,222	4,471
Actual return on plan assets	(6,065)	(120)
Net amortization and deferral	2,053	(3,565)
Domestic pension expense	$5,413	$5,688

The following table sets forth by funded status the amounts recognized in the company's balance sheets at December 31, for company sponsored domestic pension plans.

	Domestic Plans			
	1988		1987	
(In thousands)	Overfunded	Underfunded	Overfunded	Underfunded
Actuarial present value of benefit obligation				
Vested	$ 35,873	$ 7,168	$ 25,407	$ 11,600
Nonvested	3,323	187	1,116	732
Accumulated benefit obligation	39,196	7,355	26,523	12,332
Effect of future pay increases	23,015	—	10,073	10,945
Projected benefit obligation	62,211	7,355	36,596	23,277
Assets and book reserves relating to such benefits				
Funded assets at fair value	48,198	6,306	28,482	10,540
Book provisions	13,677	855	8,909	14,724
	61,875	7,161	37,391	25,264
Assets and book reserves (less) greater than projected benefit obligation	$ (336)	$ (194)	$ 795	$ 1,987
Consisting of				
Unrecognized net asset at date of adoption less amortization	$ 959	$ 1,931	$ 1,198	$ 1,883
Unrecognized net (losses) gains	(1,295)	(2,125)	(403)	104
	$ (336)	$ (194)	$ 795	$ 1,987
Actuarial assumptions				
Discount rate	8.5%	8.5%	8.5%	8.5%
Expected long-term rate of return	9.5%	9.5%	9.5%	9.5%
Rate of increase in compensation levels	6.25%	N/A	6.25%	6.25%

The company participates in several multi-employer pension plans, which provide benefits to certain employees under collective bargaining agreements. Total contributions to these plans were approximately $1.1 million in each of the last three years.

Pension costs for the company's international operations are not significant and the assets in the plans exceed the liabilities. At December 31, 1987, the accumulated plan benefits were $44,008,000 and net assets were $86,108,000.

At December 31, 1988 all plan assets are invested in listed stocks and bonds. These investments include common stock of the company which represents 4% of plan assets.

The cost of providing health care and life insurance benefits on a claims paid basis for certain retired employees was approximately $2,000,000, $1,800,000 and $1,600,000 in 1988, 1987 and 1986, respectively.

Miscellaneous—Net

For Years Ended December 31 (In thousands)	1988	1987	1986
Gain (loss) on disposal of capital assets—net	$1,101	$ 636	$ (42)
Gain on sale of marketable securities	1,462	—	—
Foreign exchange gain (loss)	341	774	(130)
Minority interest	—	(402)	(469)
Recovery related to land sales	—	—	3,500
Other	32	175	236
	$2,936	$1 183	$3,095

Accrued Liabilities

At December 31 (In thousands)	1988	1987
Payrolls and other employee related expenses	$23,430	$20,686
Insurance	12,000	11,106
Sales allowances and other related accruals	10,628	10,863
Interest	4,265	4,286
Taxes other than income	2,492	2,797
Professional fees	2,401	1,836
Pensions	2,228	7,062
Dividend payable	—	5,184
Other	11,677	15.504
	$69,121	$79,324

Reserves and Other Liabilities

At December 31 (In thousands)	1988	1987
Environmental reserve	$ 4,115	$1,913
Wage and other employee benefits	2,488	2,791
Minority interest	1,337	1 395
Self-insurance	2,176	—
Other	1,551	—
	$11,667	$6,099

Short-Term Financing

At year-end there were available with domestic and foreign banks $217,000,000 in short-term credit lines of which $169,000,000 were unused at that time. Average compensating balances for lines of credit in effect at December 31, 1988 were $390,000 which were satisfied by collected balances in the company's bank accounts. Such compensating balances reflect informal agreements and are not restricted as to withdrawal.

Long-Term Financing

At December 31 (In thousands)	1988	1987
Crane Co		
Subordinated debt		
10 1/2% Sinking fund debentures due 1994	$ 22,833	$ 27,400
7% Sinking fund debentures due 1993	8,733	8,733
7% Debentures due 1994	48,032	48 032
5% Convertible debentures due 1993 and 1994, convertible at $5 55 and $6 39	1,226	[illegible]
Other, principally capital lease obligations	3,721	[illegible]
Total Crane Co	84,545	[illegible]
Subsidiaries		
9 1/2% Sinking fund debentures due 1999	12,500	13 750
Floating rate bank loans		
Canada due 1990-1996	16,760	15 400
United States due 1991	5,900	5 500
United Kingdom due 1991	452	3 029
Industrial revenue bonds	14,801	16 480
Other including capital lease obligations	8,175	6,673
Total subsidiaries	58,588	60,832
	$143,133	$151 096

The company had available $107,236,000 of unused long-term credit agreements at year-end. At December 31, 1988, the principal amounts of long-term debt repayments, net of amounts held in treasury, required for the next five years were $14,085,000 in 1989, $14,461 000 in 1990, $18,618,000 in 1991, $11,212,000 in 1992 and $17,886,000 in 1993. In 1987 the company converted the 8 3/4% convertible debentures, increasing common shareholders' equity by approximately $73.7 million.

During 1985 the company created an irrevocable trust of direct United States government obligations to satisfy the scheduled payments of principal and interest on the $10,606 000 outstanding principal amount of the company's 6 [illegible]% Sinking Fund Debentures due 1992 not held in the company's treasury. At December 31, 1988 there was $6,063 000 outstanding

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During 1988 the company entered into a $100 million three-year revolving credit agreement. Interest on the debt outstanding is based on the lender's prime or certificate of deposit rate, or on the London Interbank market rate. The credit agreement contains various covenants, the most restrictive of these requires a minimum level of tangible net worth. At December 31, 1988, tangible net worth exceeded the required level by $26,641,000. At year-end, the company had no outstanding borrowings under this agreement.

At December 31, 1988, the aggregate amount of subsidiary earnings available for dividends to the company was $112,374,000.

Commitments and Contingencies

The company leases certain of its warehouse buildings, manufacturing facilities, vehicles and equipment under capital and operating leases with terms of from one to forty years. Certain leases may be renewed for periods of from three to twenty-five years and provide either an option to purchase or reduced annual rental payments of minimal amounts. Future minimum payments, by year, and in the aggregate, under these leases with initial or remaining terms of one year or more consisted of the following at December 31, 1988

(In thousands)	Capital Leases	Operating Leases	Minimum Sublease Income	Net
1989	$ 1,783	$13,075	$ 652	$14,206
1990	1,787	10,264	507	11,544
1991	1,729	8,422	368	9,783
1992	1,702	6,519	158	8,063
1993	817	4,443	111	5,149
Thereafter	5,159	14,255	437	18,977
Total minimum lease payments	12,977	$56,978	$2,233	$67,722
Interest	(3,507)			
Present value	$ 9,470*			

*Includes $1,220 due within one year

The weighted average interest rate for capital leases is 5.8%. These obligations mature in varying amounts through 2009.

Rental expense for all operating leases was $18,769,000, $18,450,000 and $17,233,000 for 1988, 1987 and 1986, respectively.

The cost of assets capitalized under leases is as follows at December 31:

(In thousands)	1988	1987
Buildings and improvements	$14,264	$15,437
Machinery and equipment	8,671	8,954
	22,935	24,391
Less accumulated depreciation	13,334	13,961
	$ 9,601	$10,430

The company has established a self-insurance program to cover certain public liability costs excluded under deductible clauses of its various policies in force.

At December 31, 1988, the company had received certain proposed notices of adjustment to federal income tax and was involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the company's financial condition.

Income Taxes

A reconciliation of income before taxes to the provision for income taxes (federal, state and foreign) is as follows

(In thousands)	1988	1987	1986
Income before taxes			
Domestic	$60,353	$38,220	$44,002
Foreign	21,137	20,321	11,303
	81,490	58,541	55,305
Statutory federal tax at 34% (40% in 1987 and 46% in 1986)	27,707	23,416	25,440
Increase (reduction) from			
Foreign and local taxes	3,756	2,906	1,953
Goodwill	363	346	319
Non-taxable FSC income	(568)	(501)	(650)
Minority interest	—	161	216
Non-taxable net gains	—	(121)	(630)
Other	1,046	(370)	(128)
Provision for income taxes	$32,304	$25,837	$26,520
Percentage of income before taxes	39.6%	44.1%	48.0%

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The foregoing provision includes charges for foreign taxes of $9,188,000, $10,347,000, and $5,510,000, and state taxes of $4,147,000, $2,903,000 and $2,835,000 in 1988, 1987 and 1986, respectively.

The provision for income taxes is composed of the following:

(In thousands)	1988	1987	1986
Deferred income taxes	$ 1,993	$ 3,709	$ 8,618
Current income taxes	30,311	22,128	17,902
	$32,304	$25,837	$26,520

The components of deferred income tax expense are as follows:

(In thousands)	1988	1987	1986
Excess tax depreciation	$ 1,690	$ 2,849	$ 4,542
Inventory capitalization	(862)	(1,184)	—
Restructuring and other reserves	(574)	1,474	2,362
Amortization of pension reversion	—	—	1,416
Other	1,739	570	298
	$ 1,993	$ 3,709	$ 8,618

Research and Development

Product development and engineering costs aggregated approximately $12,000,000, $10,700,000, and $11,200,000 in 1988, 1987 and 1986, respectively. In addition, approximately $7,500,000, $8,300,000 and $6,800,000 were received in 1988, 1987 and 1986, respectively, for customer sponsored research and development relating to projects within Engineered Industrial Products

Stock Options and Stock Award Plans

A summary of stock option transactions follows

	Number of Shares
Outstanding January 1, 1988	702,447
Medusa distribution adjustment	229,838
Options granted	237,800
Options expired	(42,517)
Options exercised	(163,292)
Outstanding December 31, 1988	964,276

At December 31, 1988, options for 463,557 shares were exercisable and 485,909 shares were available for grant. Shares and per share prices (ranging from $9.84 to $24.92) have been adjusted for the distribution of Medusa Corporation to shareholders. In 1987, options for 131,398 shares were exercised. The plan is not a compensatory plan which would require a charge to income.

In April 1988, the common shareholders approved the 1988 Restricted Stock Award Plan which provides for awards of common stock to key officers and employees, subject to resale restrictions which lapse over a five year period. During the year, 322,766 shares were awarded and 677,234 were available for grant at December 31, 1988. Compensation expense is determined based on the market value at the time of award and is being amortized over the five year restriction period.

Preferred Shares Purchase Rights

In July 1988, the company distributed one preferred share purchase right for each outstanding share of common stock. The company also redeemed its common share purchase rights, distributed to shareholders in May 1986. The preferred rights were not exercisable when granted and may only become exercisable under certain circumstances involving actual or potential acquisitions of the company's common stock by a person or affiliated persons. Depending upon the circumstances, if the rights become exercisable, the holder may be entitled to purchase shares of the company's Series A Junior Participating Preferred Stock, or shares of common stock of the acquiring person. Preferred shares purchasable upon exercise of the rights will not be redeemable. Each preferred share will be entitled to preferential rights regarding dividend and liquidation payment, voting power, and, in the event of any merger, consolidation or other transaction in which common shares are exchanged, a preferential exchange rate. The rights will remain in existence until June 27, 1998, unless they are earlier terminated, exercised or redeemed. The company has authorized five million shares of $.01 par value preferred stock.

Analysis by Segment of Business

An analysis of sales, operating profit, assets, capital expenditures and depreciation appears on pages 30 and 31. Segment description by products and industries served is given on pages 5 through 15.

Management's Responsibilities for Financial Reporting

The accompanying consolidated financial statements of Crane Co. and subsidiaries have been prepared by management in conformity with generally accepted accounting principles and, in the judgment of management, present fairly and consistently, except for the change in the method of accounting for pensions described in the note "Pensions," the company's financial position and results of operations. These statements by necessity include amounts that are based on management's best estimates and judgments and give due consideration to materiality.

The accounting systems and internal accounting controls of the company are designed to provide reasonable assurance that the financial records are reliable for preparing consolidated financial statements and maintaining accountability for assets and that, in all material respects, assets are safeguarded against loss from unauthorized use or disposition. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis. In addition, the company's internal audit department systematically reviews the adequacy and effectiveness of the controls and reports thereon.

The consolidated financial statements have been audited by Deloitte Haskins & Sells, independent certified public accountants, whose report appears on this page.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with management and with the company's internal auditors and independent auditors to review matters relating to the quality of financial reporting and internal accounting control and the nature, extent and results of their audits. The company's internal auditors and independent auditors have free access to the Audit Committee.

R.S. Evans

R.S. Evans
Chairman, Chief Executive Officer and President

R.K. Whitley

R.K. Whitley
Vice President—Finance and Chief Financial Officer

Independent Auditors' Report

Deloitte Haskins+Sells

To the Shareholders of Crane Co.

We have audited the accompanying balance sheets of Crane Co. and subsidiaries as of December 31, 1988 and 1987 and the related consolidated statements of income, changes in common shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Crane Co. and subsidiaries as of December 31, 1988 and 1987, and the consolidated results of its operations in conformity with generally accepted accounting principles.

As discussed in the note, "Pensions", in 1987 the Company changed its method of accounting for pensions to conform with Statement of Financial Accounting Standards Nos. 87 and 88.

Deloitte Haskins & Sells

New York, New York
January 23, 1989

Quarterly Results for the Year (Unaudited)

Quarter (In thousands except per share data)	First	Second	Third	Fourth	Year
1988					
Net Sales—Continuing Operations	$275,237	$315,772	$378,258	$343,869	$1,313,136
Gross Profit	55,804	63,739	75,498	70,674	265,715
Income from Continuing Operations	9,311	13,445	13,898	12,532	49,186
Income (Loss) from Segment Distributed to Shareholders	(972)	7,481	6,788	—	13,297
Net Income	$ 8,339	$ 20,926	$ 20,686	$ 12,532	$ 62,483
Primary Net Income (Loss) Per Share:					
Continuing Operations	$ .41	$ .60	$ .62	$ .56	$ 2 19
Segment Distributed to Shareholders	(.04)	.33	.30	—	.59
Net Income	$ .37	$ .93	$ .92	$ 56	$ 2.78
Fully Diluted Net Income (Loss) Per Share:					
Continuing Operations	$ .41	$ .59	$ .61	$ 56	$ 2.17
Segment Distributed to Shareholders	(.04)	.33	.30	—	58*
Net Income	$ .37	$ .92	$ .91	$ .56	$ 2.75*
1987(a)					
Net Sales—Continuing Operations	$256,316	$282,397	$284,025	$276,858	$1,099.596
Gross Profit	49,975	57,596	58,072	57,086	222.729
Income before Cumulative Effect of a Change in Accounting	5,561	9,703	9,814	7.626	32,704
Cumulative Effect of a Change in Accounting	5,673	—	—	—	5.673
Income from Continuing Operations	11,234	9,703	9,814	7,626	38,377
Income from Segment Distributed to Shareholders(b)	2,967	5,168	6,900	5,874	20,909
Net Income	$ 14,201	$ 14,871	$ 16,714	$ 13,500	$ 59,286
Primary Net Income Per Share:					
Continuing Operations:					
Income before Cumulative Effect of a Change in Accounting	$ .27	$ 41	$ 42	$ 33	$ 1.45*
Change in Accounting	.27	—	—	—	25*
Income from Continuing Operations	54	41	42	33	1 70
Income from Segment Distributed to Shareholders(b)	.14	22	.29	26	.93*
Net Income	$ .68	$ 63	$ .71	$ .59	$ 2.63*
Fully Diluted Net Income Per Share:					
Continuing Operations:					
Income before Cumulative Effect of a Change in Accounting	$ 27	$ 40	$ 41	$ 33	$ 1 41
Change in Accounting	.23	—	—	—	24*
Income from Continuing Operations	.50	.40	41	33	1 65*
Income from Segment Distributed to Shareholders(b)	.12	.22	29	25	88
Net Income	$ .62	$ .62	$ 70	$ 58	$ 2 53*

* Earnings per share for the year are based on the weighted average number of shares outstanding during the year. Earnings per share for the quarters are based on weighted average number of shares outstanding during the quarters. Accordingly the earnings per share for the quarters do not equal annual earnings per share.

a Restated to reflect segment distributed to shareholders.

b Includes cumulative effect of a change in accounting for gain on pension asset reversion of $3,329 ($.16 per primary share) in the first quarter and $.15* for the year ($.14 per fully diluted share).

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Management's Discussion and Analysis of Operations and Financial Condition

Results of Operations

Sales from continuing operations for 1988 were $1,313 million, a 19% increase from the prior year. This increase plus better margins resulted in an operating profit of $95.7 million, an improvement of $20.5 million or 27% from 1987. Operating results of $75.1 million for 1987 were only slightly ahead of 1986 on 5% increase in sales.

Income from continuing operations, net of taxes, was $49.2 million in 1988 compared with $32.7 million and $28.8 million in the two prior years, respectively. The increase in earnings, in addition to reflecting the improved operating results, included the reduction of borrowing costs of over $5 million from the 1986 level and the effects of lower U.S. Federal income taxes. Income tax as a percentage of income fell from 48% in 1986 to 44.1% in 1987 and to 39.6% in 1988.

At the end of the third quarter of 1988, Medusa Corporation, a wholly-owned cement and aggregates business, was distributed tax-free to shareholders. Net income for 1988 was $62.5 million reflecting Medusa's $13.3 million profit for the first nine months. The 1987 net income of $59.3 million included Medusa's operations for the full year plus $9 million related to a change in accounting for pension reversions as required by SFAS 88.

Engineered Industrial Products

The Engineered Industrial Products segment registered sharp sales and operating profit increases, with improvement coming from most of its businesses. Sales and operating profits were as follows:

(In millions)	1988	1987	1986
Sales	$723.3	$649.8	$629.1
Operating Profit	81.2	55.4	62 3

Crane Valve operations worldwide recorded excellent sales gains and much improved operating profit from 1987. The U.S. Valve operation has reduced its operating losses during the last three years despite major write-offs of obsolete inventory. Valve operations in the United Kingdom, Canada and Australia continued to operate satisfactorily.

Deming and Chempump's pump businesses both had sales and earnings increases in 1988 as did the water treatment business of Cochrane Environmental Systems. In 1988 Chempump expanded its regionalized network of strategically located parts and service centers by acquiring a machining and service company in West Virginia.

The Canadian plumbing products, with lower housing starts and increased price competition in 1988, had a decrease in sales, while profits remained strong though somewhat lower than the prior year.

The Hydro-Aire aircraft components operation registered a strong sales gain and operating profit improved in 1988 from the 1987 level. Order backlog at Hydro-Aire is up 26% over the prior year.

National Vendors was a major contributor to the sales and profit improvement in 1988 with vending machine sales up 24% and operating profit more than doubling from 1987 levels. The continued success of this business is the result of new product development, aggressive marketing and improved market share.

Kemlite's sales of fiberglass reinforced plastic products for the transportation and construction industries were down slightly in 1988, but earnings continued to be strong

CorTec, benefiting from improved markets for its fiberglass panels for transportation, and more selective selling and operating efficiencies, had a profitable year, rather than the losses incurred in the prior two years.

Ferguson's U.S. and European operations had both sales and operating profit improvements from the disappointing 1987 results due to cost reduction and a broadening of the industry served.

Resistoflex, which was relocated in 1987 to two new separate facilities for the industrial and defense operations, had a modest profit in 1988 as a result of correcting the problems experienced during the plant start-ups.

Defense related businesses showed mixed results for 1988 A drop in Navy contracts was partially offset by orders for fittings for nuclear vessels and improvements at our precision ordnance operation.

Sales in 1987 increased approximately $21 million over 1986; however, operating profit declined 11% primarily due to start-up costs related to replacing an old Resistoflex facility with two new plants. In addition, higher pension costs were incurred due to the change in accounting The Canadian plumbing, foreign valves and National Vendors businesses a[illegible] recorded significant sales and operating profit improvement but these gains were offset by decreases at Ferguson and the defense related businesses.

Wholesale Distribution

The Wholesale Distribution segment's sales increased 31% over 1987 due to the acquisition of Palmer G. Lewis at the end of the second quarter of 1988, as well as increased shipments at Crane Supply Canada. Operating profits declined in 1988 but were above 1986. Sales and operating profits were as follows:

(In millions)	1988	1987	1986
Sales	$610.4	$467.4	$428.7
Operating Profit	28.8	32.4	25.3

Huttig Sash & Door's sales were $470.4 million in 1988, 34% above the 1987 level. Most of the sales increase was due to the acquisition of Palmer G. Lewis at the end of the second quarter of 1988. The softness of the housing market, start-up costs of new retail outlets in California and Tennessee, and a higher level of lower margin, direct-to-customer shipments were major reasons for the decrease in operating profit for 1988.

Crane Supply Canada had a successful year with sales up 26% and operating profits 70% above 1987. Sales of industrial products were strong, which contributed to improved margin in 1988.

Sales in 1987 increased 20% over 1986, excluding the United States Crane Supply plumbing and heating distribution operations sold in February 1987, while operating profit improved 28%. Both Huttig Sash & Door and Crane Supply Canada contributed to the sales and operating profit improvements.

Financial

Net interest expense declined slightly from 1987 due to the conversion in March 1987 of the company's 8¾% debentures and interest income from the proceeds of the Medusa dividend, partially offset by short-term borrowings to finance the acquisition of Palmer G. Lewis. Net interest expense in 1987 was $5.1 million less than in 1986, due primarily to the debt conversion in 1987.

Miscellaneous income, including a $1.5 million gain on sale of marketable securities, was $2.9 million in 1988 compared with $1.2 million in 1987. In 1986, miscellaneous income amounted to $3.1 million, primarily due to a $3.5 million recovery from sales of land and water rights.

The company's effective tax rate for 1988 decreased to 39.6% compared with 44.1% in 1987 and 48.0% in 1986 due to changes in the U.S. tax law, in particular, the statutory rate.

Liquidity and Capital Resources

During 1988, the company generated cash flows from operating activities of $139 million, which included an $84 million special dividend from Medusa immediately prior to its distribution to Crane shareholders.

The company continued to generate sufficient cash flows from operating activities to finance its acquisition and capital expenditure programs, service its debt and to pay dividends to its shareholders. Expenditures relating to modernization, productivity improvements and expansion of existing businesses amounted to $17.9 million, $16.2 million and $15.1 million in 1988, 1987 and 1986, respectively. In addition, acquisitions of new businesses amounted to approximately $48 million in 1988.

The current ratio of 2.2 and working capital of $237 million at year end 1988 continue to be strong. Unused lines of credit at year end 1988 were $169 million short-term and $107 million long-term, providing the company with sufficient financial flexibility.

The company purchased 1.1 million of its shares for $27.6 million in 1988 and 1.7 million shares at a cost of $42 million in 1987.

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Analysis by Segment

(In thousands)	1988 Amount	%	1987 Amount	%	1986 Amount	%
Net Sales:						
Industry Segments:						
Engineered Industrial Products	$ 723,253	54	$ 649,815	58	$ 629,105	59
Wholesale Distribution	610,418	46	467,352	42	428,691	41
	1,333,671	100	1,117,167	100	1,057,796	100
Intersegment Sales	(20,535)		(17,571)		(14,078)	
	$1,313,136		$1,099,596		$1,043,718	
Geographic Region:						
United States	$ 975,749	73	$ 811,380	73	$ 801,169	76
Canada	216,764	16	183,216	16	154,007	15
Other International	138,696	11	116,724	11	98,542	9
	1,331,209	100	1,111,320	100	1,053,718	100
Interregional Sales	(18,073)		(11,724)		(10,000)	
	$1,313,136		$1,099,596		$1,043,718	
Operating Profit:						
Industry Segments:						
Engineered Industrial Products	$ 81,205	74	$ 55,396	63	$ 62,277	71
Wholesale Distribution	28,770	26	32,435	37	25,288	29
	109,975	100	87,831	100	87,565	100
Corporate	(14,309)		(12,701)		(12,521)	
	$ 95,666		$ 75,130		$ 75,044	
Geographic Region						
United States	$ 82,256	75	$ 60,954	69	$ 71,322	81
Canada	18,757	17	17,654	20	11,259	13
Other International	8,962	8	9,223	11	4,984	6
	109,975	100	87,831	100	87,565	100
Corporate	(14,309)		(12,701)		(12,521)	
	$ 95,666		$ 75,130		$ 75,044	
Assets:						
Industry Segments						
Engineered Industrial Products	$ 395,080	63	$ 386,710	72	$ 377,579	72
Wholesale Distribution	234,034	37	148,505	28	148,503	28
	629,114	100	535,215	100	526,082	100
Investments Held for Disposal	—		71,258		65,919	
Corporate	52,626		28,294		20,779	
	$ 681,740		$ 634,767		$ 612,780	
Geographic Region						
United States	$ 464,941	74	$ 384,030	72	$ 406,718	77
Canada	86,670	14	76,233	14	58,990	11
Other International	77,503	12	74,952	14	60,374	12
	629,114	100	535,215	100	526,082	100
Investments Held for Disposal	—		71,258		65,919	
Corporate	52,626		28,294		20,779	
	$ 681,740		$ 634,767		$ 612,780	

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	Capital Expenditures			Depreciation		
	1988	1987	1986	1988	1987	1986
Industry Segments:						
Engineered Industrial Products	$11,825	$12,938	$ 9,579	$15,913	$15,531	$13,949
Wholesale Distribution	5,767	3,312	5,441	3,614	2,523	2,210
Corporate	273	—	61	217	213	232
	$17,865	$16,250	$15,081	$19,744	$18,267	$16,391
Geographic Region:						
United States	$11,479	$10,485	$10,335	$14,051	$13,006	$12,049
Canada	3,007	3,688	2,723	2,163	1,727	1,260
Other International	3,379	2,077	2,023	3,530	3,534	3,082
	$17,865	$16,250	$15,081	$19,744	$18,267	$16,391

Market and Dividend Information-Common Shares

	New York Stock Exchange Composite Price Per Share*				Dividends Per Share	
	1988		1987		1988	1987
Quarter	High	Low	High	Low		
1st	$25¼	$15¾	$24⅜	$17⅝	$.22½	$.20
2nd	26½	22⅜	24½	19	.22½	.22½
3rd	25¼	22⅜	27¾	22	.22½	.22½
4th	25⅛	21⅞	27⅛	13⅝	.25	.22½
					$.92½	$.87½

At December 31, 1988 there were approximately 8,300 holders of Crane Co. common stock

* Adjusted for distribution of Medusa Corporation to shareholders in 1988 and 3-for-2 stock split in 1987

Five Year Summary of Selected Financial Data

(Years Ended December 31; in thousands except share data)	1988	1987*	1986*	1985*	1984*
Net Sales	$1,313,136	$1,099,596	$1,043,718	$960,702	$655,297
Depreciation	19,744	18,267	16,391	18,132	9,854
Operating Profit	95,666	75,130	75,044	38,394**	46,298
Interest Expense	18,842	19,100	26,650	28,176	14,976
Income before Taxes	81,490	58,541	55,305	20,945	38,964
Income Taxes	(32,304)	(25,837)	(26,520)	(6,360)	(9,573)
Income—Continuing Operations	$ 49,186	$ 32,704	$ 28,785	$ 14,585	$ 29,391
Income Per Common Share—					
Continuing Operations:					
Primary	$2.19	$1.45	$1.40	$.71	$1.32
Fully Diluted	2.17	1.41	1.30	.71	1.29
Dividends Declared Per Common Share:					
Cash	$ .92½	$ .87½	$ .78	$.71	$ .70
Stock	—	—	—	2%	2%
Assets	$681,740	$634,767	$612,780	$630,610	$435,938
Long-Term Debt	$143,133	$151,096	$225,931	$270,501	$130,376

* Restated to reflect segment distributed to shareholders

** Includes non-recurring restructuring costs of $25,428

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Operations

Engineered Industrial Products

Chempump Division
Warrington, Pennsylvania

Cochrane Environmental Systems Division
King of Prussia, Pennsylvania

CorTec Company
Washington Court House, Ohio

Crane Australia Pty. Limited
Sydney, Australia

Crane Canada, Inc.
Valve Division
Plumbing Division
Montréal, Canada

Crane Defense Systems
St. Louis, Missouri

Crane Ltd.
London, England

Crane Midwest
St. Louis, Missouri

Deming Division
Salem, Ohio

Ferguson
St. Louis, Missouri

Ferguson Machine Company, S.A.
Braine-le-Chateau, Belgium

Hydro-Aire Division
Burbank, California

Kemlite Company
Joliet, Illinois

National Vendors
St. Louis, Missouri

National Rejectors, Inc., GmbH
Buxtehude, West Germany

Polyflon Company
New Rochelle, New York

Resistoflex/Defense
Jacksonville, Florida

Resistoflex/Industrial
Marion, North Carolina

Unidynamics/Phoenix, Inc.
Phoenix, Arizona

Valve Division
King of Prussia, Pennsylvania

Wholesale Distribution

Huttig Sash & Door Co.
Chesterfield, Missouri

Crane Canada, Inc.
Crane Supply Division
Montréal, Canada

Directors

E. Thayer Bigelow, Jr. [2,3]
President, Home Box Office, Inc.;
A Subsidiary of Time, Inc.

Walter J.P. Curley
Private Venture Capital Investments

Robert S. Evans [1]
Chairman, Chief Executive Officer
& President of the Company

Dante C. Fabiani [2]
Retired President of the Company

Richard S. Forté
President, Forté Cashmere
Company, Inc.
Importer and Manufacturer

Robert W. Lear [1,3]
Director of various corporations

Dwight C. Minton [1,3]
Chairman & Chief Executive Officer,
Church & Dwight Co., Inc.
Chemical Manufacturer

Charles J. Queenan, Jr. [2]
Partner, Kirkpatrick & Lockhart,
Attorneys at Law

Arthur A. Seeligson, Jr.
Independent Oil Operator, Investments

Boris Yavitz [1,3]
The Paul Garrett Professor of Public
Policy and Business Responsibility
& Director of the Management
Institute
Columbia University
Graduate School of Business

[1] Member of the Executive Committee
[2] Member of the Audit Committee
[3] Member of the Organization and
Compensation Committee

Corporate Officers

Robert S. Evans
Chairman, Chief Executive Officer
& President

B. Jack Barnes
Executive Vice President

Eric G. Dalrymple
Treasurer

Thomas C. Fish
Vice President, Corporate Development

Paul R. Hundt
Vice President, Secretary
& General Counsel

Robert J. Muller, Jr.
Executive Vice President

Richard B. Phillips
Vice President, Human Resources

Michael L. Raithel
Controller

R. Kenneth Whitley
Vice President—Finance
& Chief Financial Officer

Executive Offices
Crane Co.
757 Third Avenue
New York, NY 10017
Telephone: (212) 415-7300

Form 10-K
Copies of Form 10-K for 1988 as filed with the Securities and Exchange Commission are available upon written request from the Secretary's Office at the address above.

Annual Meeting
The Crane Co. annual meeting will be held at 10:00 a.m. on Monday, May 8, 1989 in the 10th floor meeting room of Morgan Guaranty Trust Co., 9 West 57th Street, New York, NY

Stock Listings
Crane Co. common stock is traded on the New York and Pacific Stock Exchanges.

Stock Transfer Agent and Registrar of Stock
Morgan Shareholder Services Trust Co.
30 West Broadway
New York, NY 10007

Bond Trustees and Disbursing Agents
Citibank, N.A.
New York, New York 10015

Bank of America National Trust and
Savings Association
Los Angeles, California 90054

Auditors
Deloitte Haskins & Sells
New York, New York 10048

Equal Employment Opportunity Policy
Crane Co. is an equal opportunity employer. It is the policy of the company to recruit, hire, promote and transfer to all job classifications without regard to race, color, religion, sex, age or national origin.

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New York, New York 10017

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