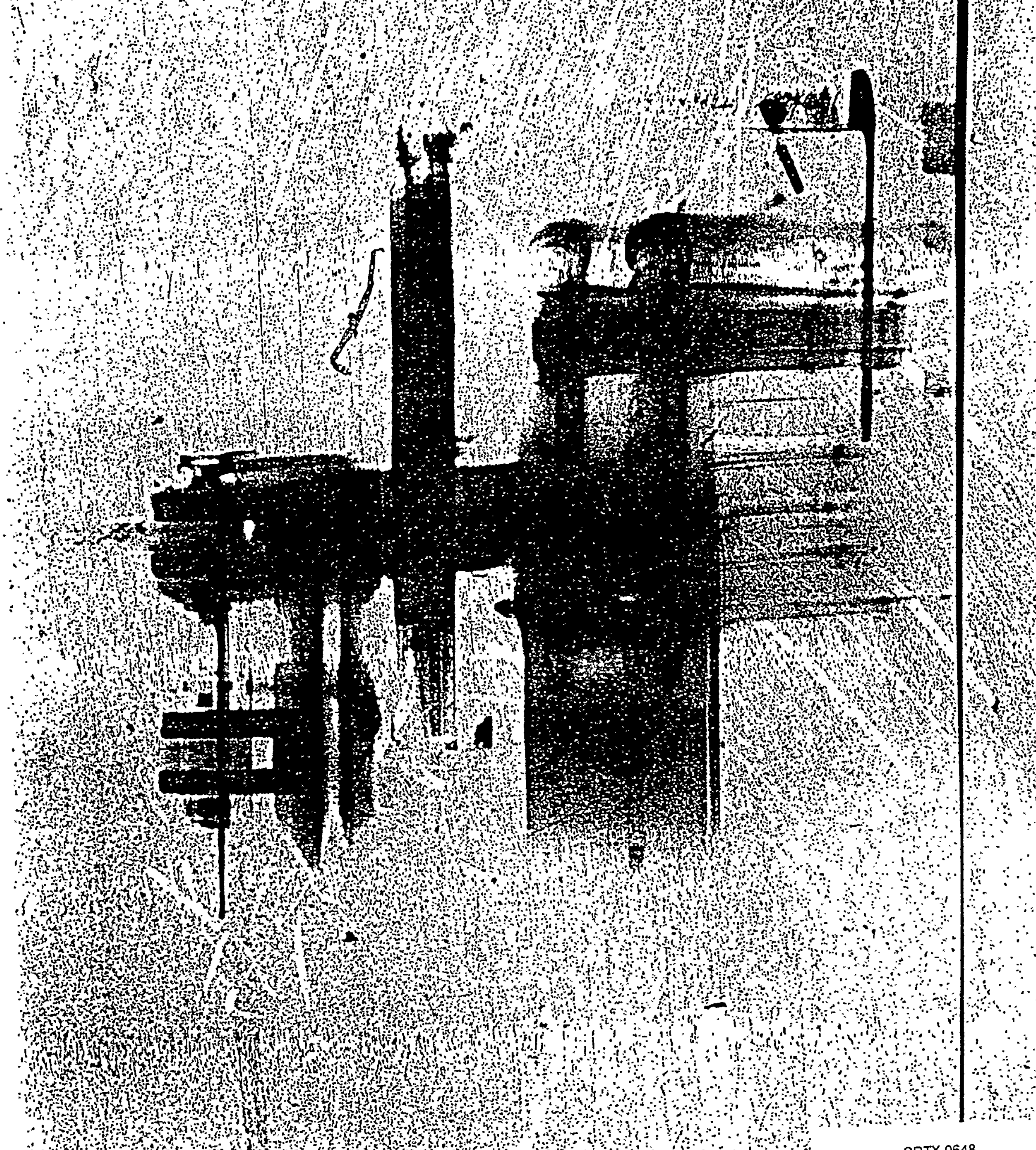
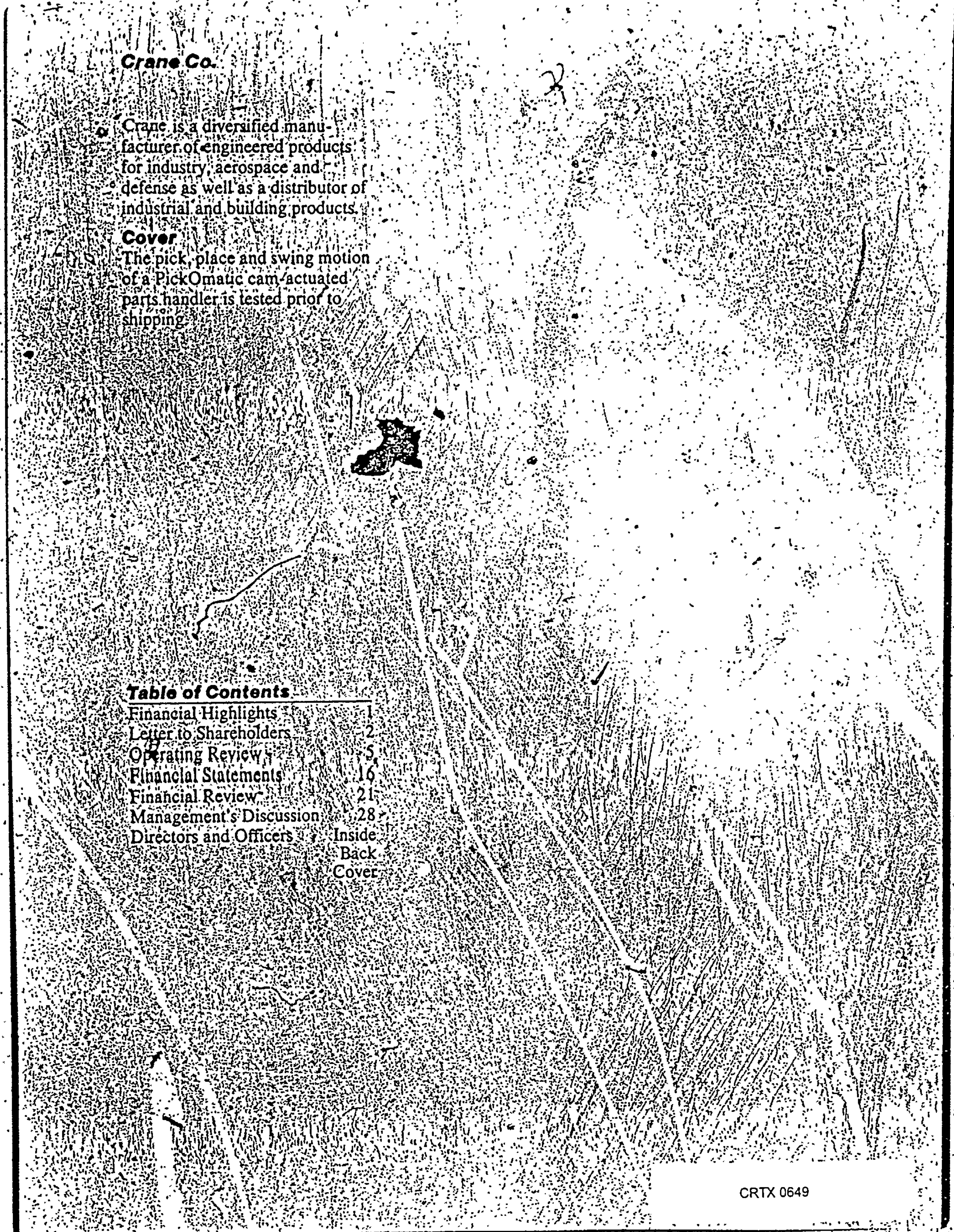
Crane Co.

1986 Annual Report





Crane Co.

Crane is a diversified manufacturer of engineered products for industry, aerospace and defense as well as a distributor of industrial and building products.

Cover

The pick, place and swing motion of a PickOmatic cam-actuated parts handler is tested prior to shipping.

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Letter to Shareholders

1986 was another strong year for Crane Co. Sales, operating profit, and income before tax all showed strong improvement from 1985, excluding the one-time restructuring charge in 1985 of $25.4 million before tax. The most important numbers were earnings per share of $2.80 and cash flow per share of $5.76. We are also proud to have achieved a 23% return on book equity, exceeding our goal of 20%.

In addition, our financial position improved with the reduction of long-term debt by $43.8 million and increase in equity by $15.5 million after repurchasing 402,000 shares at an average price of $30.51 per share. Crane has long had a policy of repurchasing shares at appropriate times. When adjusted for stock splits and stock dividends, there has been a steady yearly decline over the last 27 years in the number of shares outstanding.

Our efforts to redeploy capital to earn higher returns for shareholders continued. The success of these efforts was recognized by the 26% appreciation in our stock price in 1986. This appreciation combined with our dividend, which was increased 12% in June to $1.20, as well as the 3 for 2 stock split declared in March, gave a total return to shareholders of approximately 31% during the year.

We want to be in businesses which have high shares of niche markets that do not require large amounts of continued capital spending and are not burdened by high fixed costs. The key to success in these businesses is aggressive, capable, committed management. Ultimately our success as managers will be determined by our ability to increase shareholder value.

Crane is a decentralized company. We are committed to be an efficient, low cost, lean organization. One of our key goals is to keep corporate expense under 1% of sales. We are currently reporting six business segments. Each business unit within the segment has profit responsibility.

In the Fluid Systems and Controls segment, Hydro-Aire had continued increases in sales and earnings. Jack Barnes, President of Hydro-Aire, has been with this unit for 29 years and President for 16. The team he has put together is as strong a management group as any in the aerospace industry, and their continued excellent results reflect the strong market and proprietary products they have developed over the years.

Crane Canada, under Gordon Kelly's leadership, continued to show improving results, primarily due to a strong plumbing market and increased market share. Gordon has been President of Crane Canada for 11 years and an employee for 42 years. Since he is only 57 years old this achievement is remarkable. His longstanding commitment to quality and service has been a key to Canada's improving results over the past four years.

Jack Fraser, Executive Vice President of Crane, took direct responsibility of the U.S. industrial valve business in August of 1986. Jack has been with Crane for 17 years and was, prior to taking his present position in 1985, Managing Director of the United Kingdom operations. While results were a disappointment for the year, three plant closures, staff reductions, and product moves began to show underlying improvement during the fourth quarter. Despite weakness in the original equipment business for industrial valves in the primary markets, the valve service group, which handles repairs and parts, had significantly improved results over 1985, helped by the acquisition in 1985 of Mark Controls' repair business.

Defense and Specialty Systems President, Mel Appelman, has a complex group of engineered and

Financial Highlights

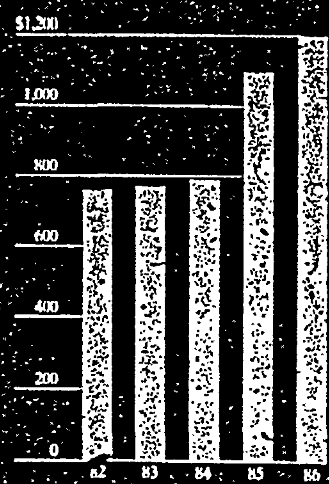
Crane Co. and Subsidiaries

(In thousands)	1986	1985	1984	1983	1982
Net Sales	$1,204,236	$1,098,848	$792,212	$771,679	$763,563
Operating Profit*	91,352	44,364	48,728	23,792	5,534
Income before Taxes	72,225	26,230	41,904	46,365	26,914
Income Taxes	(33,847)	(8,633)	(10,939)	(19,988)	(7,624)
Income—Continuing Operations	$ 38,378	$ 17,597	$ 30,965	$ 26,377**	$ 19,290**
Per Share:†					
Income—Continuing Operations	$ 2.80	$ 1.28	$ 2.09	$ 1.66**	$ 1.21**
Cash Dividends Declared	1.17	1.07	1.05	1.03	1.01
Average Primary Shares Outstanding†	13,719	13,729	14,822	15,91[illegible]	15,922

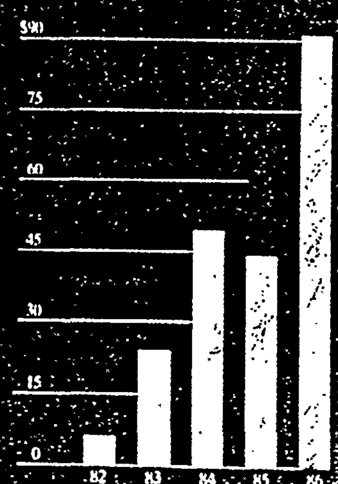
†Adjusted for 50% stock distribution in 1986 and 2% stock dividends in prior years.
*Includes non-recurring restructuring costs in the amount of $25,428 in 1985 as well as certain other reclassifications to conform prior years with the 1986 presentation.
**Excludes loss on discontinued operations of $135,437 and $22,633 ($8.51 and $1.42 per share) in 1983 and 1982, respectively.

Continuing Operations

Sales *(in millions)*



Operating Profit *(in millions)*



1985 is before $25.4 of non-recurring restructuring costs.

CRTX 0651

technologically advanced motion control businesses. Mel became President of this group when it was formed in 1985. He has been a senior manager and an employee in the defense-related operations for 34 years. The team of managers he has built up over the years is strong. Mel manages this group with an effective, decentralized, management-by-objective system with ROI very much in mind. During the last quarter of 1986, Resistoflex/Defense moved to a new plant in Jacksonville, Florida and started up production. The Electronics business moved out of St. Louis to Highland, Illinois with greatly reduced costs, and was integrated into the Unidynamics/St. Louis group. Ferguson Machine Company acquired PickOmatic Systems and moved its High Performance Machine unit into PickOmatic's plant, freeing capital and reducing costs. Unidynamics/Phoenix became the leader in laser ordnance initiation and will continue to develop this promising technology in the future. This group is facing pressure from reduced military spending and continued weak capital spending, but nevertheless 1987 should still be a good year. Backlog, a key indicator of future profitability, was greater at the end of 1986 than the end of 1985 and the actions taken during 1986 should produce improved results beyond 1987.

Merchandising Systems President, Bob Muller, achieved a remarkable turnaround at National Vendors, the primary business in this segment. National Vendors had lost money prior to Bob's appointment as President in early 1985. In fact, National Vendors lost money at the rate of $500,000 to $600,000 per month in early 1985. By June of 1986, Bob had improved productivity by 35%, reduced inventory by 30%, greatly strengthened the management team and business systems, introduced a whole new line of products and started up a new business. This turnaround to a consistently profitable operation has greatly increased its value to the company.

(from left) R. Kenneth Whitley, *Vice President-Finance & Chief Financial Officer;* Paul R. Hundt, *Vice President, Secretary & General Counsel;* Robert S. Evans, *Chairman, Chief Executive Officer & President;* Michael L. Raithel, *Controller;* Gerard E. Dorsey, *Treasurer;* Richard B. Phillips, *Vice President, Human Resources*

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During January of 1987 Bob accepted the additional responsibility of running the Engineered Materials segment. Results in this segment in 1986 were disappointing due to a weak market for truck trailers and increased competition. Continued low capital spending in the chemical process industry hurt Resistoflex. Under Bob's leadership, the major thrusts will be to develop new markets and more effectively market existing products, combined with more emphasis on manufacturing efficiencies. These changes should bring better results in 1987. Resistoflex sold its old factory at the end of 1986, however the gain on the sale was offset by a provision to cover costs of moving in 1987.

Stuart Wells, President of Huttig Sash & Door for the last nine years, continued to implement his growth strategy with great success in 1986. It was a record year in sales and earnings. Huttig added seven branches during 1986 for a total of 41. Harbor Millwork, with four branches in New England and one in New York, was the biggest acquisition and gave Huttig an excellent position in the strong housing market in New England. Another step in vertical integration will be achieved with the completion of the new wood window manufacturing facility in Rock Hill, South Carolina in March, 1987. Huttig expects to have continued excellent results due to its position in single family housing and the repair and remodeling sector.

Medusa Corporation, under the leadership of Dan Somes, a 12 year employee of Medusa, had the greatest improvement of any of the Crane businesses. Increased capacity utilization at the Charlevoix cement plant combined with improved prices and increased market share for the Wampum plant, improved cement results dramatically. The aggregates business continued its improvement, with additional capacity at the very profitable Thomasville industrial minerals business being a major factor. We expect that 1987 will continue to show improvement at Medusa largely because of the increased distribution capabilities of the Charlevoix plant and capital expenditures that have been and are being made to reduce costs and improve quality.

Crane has the financial strength to grow by acquisition. We will continue to look for businesses which strengthen our existing units, fit our objective of growing in the industrial, engineered products niche markets where management can make a significant difference, and add to earnings per share. We would consider selling certain businesses which do not fit on a long term basis and which we feel will allow us to achieve higher returns with alternative investments. However, we must receive fair value for those businesses. We will not make poor financial decisions for the sake of strategic plans.

Crane enters 1987 with excellent, experienced management in its operating units. At headquarters, in January of 1987, Dick Phillips was elected Vice President of Human Resources and Tom Spencer, Vice President of Corporate Planning. Crane is dedicated to recruiting, retaining and motivating the best operating management.

In February, the Board of Directors appointed Boris Yavitz, the Paul Garrett Professor at the Columbia University Graduate School of Business, a Director. We are very pleased to have this distinguished member of the business and academic communities as part of the Crane team.

I would like to thank all our employees who have contributed to the strong 1986 results and positioned Crane for continued improvement and growth in 1987 and beyond.

R.S. Evans

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

February 27, 1987

Fluid Systems and Controls

This segment is composed of operations that design, develop, manufacture and distribute industrial fluid control products and systems for aerospace, process and construction markets.

Domestic
Hydro-Aire is one of the foremost designers and manufacturers of aircraft brake control systems, fuel boost pumps and hydraulic valve equipment for commercial, commuter, military and general business aircraft. In 1986, with the commercial aircraft market expanding and military demand remaining strong, the division had another excellent year.

The division won a significant contract to provide the brake control system for the new Boeing 747-400 airplane. The system, developed for this extremely large commercial aircraft, required the engineering of specially-designed equipment using Hydro-Aire's latest digital anti-skid and torque feedback controls. As part of this division's continuing effort to be the leader in its major product lines, new concepts in fiber optic sensing and advanced digital electronics are being engineered into new designs for future aircraft. Research and development included the acceleration of work on high-pressure hydraulic applications in anticipation of new military requirements.

The market for valves and fittings in the United States remained weak in 1986 and continued to be further aggravated by high levels of imports. The major consolidation and restructuring of the U.S. Valve Division, announced in late 1985, was for the most part completed in 1986. The plant operations at Indian Orchard, Massachusetts and Chattanooga, Tennessee were closed and the production lines transferred to Rogers, Arkansas and Washington, Iowa. The Aloyco stainless steel valve line was also moved to Rogers from Linden, New Jersey. To better utilize our North American manufacturing facilities, bronze valve production at Rogers was consolidated into the Brantford, Ontario plant. All of these actions plus changes to systems and organization have set the stage for an improved operation where customer demand can be met on a profitable basis. Crane Valve Services, with the addition of the former Mark Controls operations acquired during 1985, had a very good year in 1986 and continues to offer attractive opportunities for growth and profit in 1987 and beyond.

Hydro-Aire will provide the brake control system for the Boeing 747-400.

CRTX 0654

Chempump, a leading manufacturer of leakproof canned motor pumps, had sales slightly ahead of last year. Capital expenditures in its major market, the chemical industry, continue to be slow. A 1986 highlight was the largest single contract obtained by this division for specially-designed nuclear pumps for the Navy, against which shipments have started.

Deming manufactures standard pumps for general industrial use. Considerable attention was given during the year to strengthening its marketing organization and distributor network. More effective programs on quality control and on-time delivery to customers have been implemented to assist in improving future market penetration.

Cochrane Environmental Systems engineers and markets water and wastewater treatment equipment for the pulp and paper, power generation, chemical and other industries. Major efforts were made during the year to reduce the cost of equipment through engineering and manufacturing improvements. These changes plus the introduction of new products, such as an automatic backwashing filter, are expected to improve performance in 1987.

Crane Supply in the United States, a wholesale distributor of industrial and plumbing products, was sold in February 1987.

Canada

Crane Canada Inc. serves the housing and commercial construction markets as well as the industrial sector through the manufacture and distribution of plumbing fixtures and related products, and industrial and commercial valves, pipe and fittings. Sales and profits in 1986 were well above last year's, reflecting a generally strong market for the company's products. The exception was the continued softness in the oil, gas and mining markets.

Canada's Plumbing Division has had particularly strong results during the last several years due to high levels of housing starts and some gains in market share. The introduction of new products continues to be an important source of sales for this division. A new line of acrylic bathtubs was particularly successful in 1986.

The Valve Division sales in 1986 were favorably affected by a high level of construction in Ontario and Quebec with high demand for waterworks valves and hydrants, and the additional production of bronze valves for the U.S. market. This was offset to a certain extent by low demand for industrial valves, particularly in the oil and gas industries.

Crane Supply in Canada is a major distributor of valves and related industrial products, pipe, plumbing, and heating products. Sales overall in 1986 remained strong; however, results in the energy producing areas of western Canada, traditionally a stronghold for Crane Supply, were impacted adversely by the oil price decline and the drop in exploration activity.

International

In the United Kingdom, Crane Limited manufactures and supplies valves, pipe fittings and centrifugal pumps to the local and export markets. The demand was weak for the division's products in 1986. The fall in world oil prices and political instability in the Middle East affected its export markets. Management efforts have concentrated on obtaining new markets and reducing manufacturing costs.

Crane Australia Pty., Limited, manufactures and supplies valves in Australia, New Zealand and related markets. Although the overall economy was not buoyant, Australia had higher sales and profits in 1986.

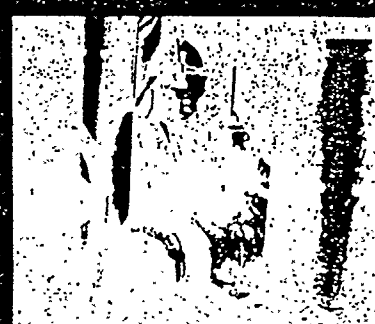
The operation in Mexico, which produced a line of small industrial pumps, was sold in 1986.

Jack Fraser (at left), Fluid Systems & Controls President, with Ken Beck, Director of Operations for the Valve Division, evaluating Alsyco production at Rogers, Arkansas plant.

Leakproof Chempump handles sulfuric acid at a processing plant.

Liteline, a new line of acrylic, whirlpool bathtubs from Crane Canada.

Valve being reconditioned at a customer's plant by Valve Services technician.



Defense and Specialty Systems

This segment is composed of operations that engineer, develop and manufacture motion control products for aerospace, defense and industrial automation markets.

Defense Systems
Unidynamics/St. Louis designs and manufactures handling and launching systems for naval shipboard and other military applications, plus certain specialty applications of these systems for industrial use. The order backlog for this operation is substantially above 1985 levels, with new orders for Tactical Towed Array Sonar Handling and Storage and Tomahawk Armored Box Launching systems being received in 1986. Electronics operations have been relocated to provide enhanced, low-cost, in-house capability for the various defense related operations.

The Unidynamics/Midwest division significantly increased sales of equipment to the U.S. Navy in 1986 for the LDH-1 Amphibious Assault Ships. This equipment consisted of special doors and closures, cranes, hoists and new products such as package conveyors and special-duty winches. In 1986 a $2.5 million program was awarded by the Navy to upgrade control systems for Navy ship elevators. More aggressive marketing activity and the development of new control systems for tower elevators and innovative designs for rack and pinion elevators should mean opportunities for growth in 1987.

Unidynamics/Phoenix designs and manufactures precision ordnance and related electromechanical and electronic devices for the Departments of Energy and Defense. This operation is very dependent on government contract awards for product research and development. To ensure its competitiveness in obtaining these awards, emphasis was placed in 1986 on improving efficiency and cost-effectiveness throughout the operation. Phoenix received contracts for laser ordnance initiation systems hardware of over $3.5 million. New technology, particularly involving the use of lasers, will provide the basis for future growth. This unit has also developed technology on microprocessor-controlled electronic sequencers for ejection seats in high-performance aircraft.

Resistoflex/Defense is the leading separable fittings manufacturer for high pressure fluid applications, primarily in military aircraft. 1986 shipments and results were slightly below expectations, however the current backlog remains strong. To improve manufacturing costs and efficiencies, this operation has been relocated to Jacksonville, Florida. Full operation at the new location, when completed early in 1987, will greatly enhance this business's competitive position.

Specialty Systems
Ferguson Machine Company and its related operations develop, design and manufacture intermittent motion control systems and machines for automated production. Its position as a world leader was strengthened by the acquisition of PickOmatic Systems, Inc., a producer of cam-actuated parts handling equipment. The worldwide markets are served through manufacturing plants located in the United States, Belgium and Germany.

Overall this group had improved results in 1986. The major improvement was at HPM, where machine tool retrofitting and rebuilding was discontinued. HPM is now concentrating on producing precision rotary positioning products which integrate with the various Ferguson products and systems.

Given the acquisition and the efforts made in 1986 to rationalize manufacturing, particularly in the United States, 1987 should have improved results.

Mel Appelman, *(at left) President of Defense & Specialty* Systems and Byron Hill, *Vice President, Ferguson Machine Co. at PickOmatic facility.*

A Ferguson high speed, automated machine system guides and positions bottles.

A modular marine elevator system for the U.S. Navy in final test at Unidynamics/Midwest.

A variety of special hoses outfitted with Dynatube fittings produced by Resistoflex/Defense.

CRTX 0658

Engineered Materials

This segment produces fiberglass reinforced panels and structural walls; specialty fluoropolymers for pipes, valves and fittings; and microwave substrates and capacitors.

Dyrotech Industries is a major producer of fiberglass reinforced panels (FRP) and structural walls. In 1986 the emphasis was on new products and markets to stimulate growth and compensate for a slow transportation market.

A major new product, a smooth, specially formulated FRP panel, is expected to capture new markets where an "automotive" type appearance is desirable. This special, smooth FRP panel will be marketed in the revitalized recreational vehicle marketplace and the sign and construction markets, often replacing aluminum. Continuing growth is expected in the building products area with the introduction of Glasbord Fire X panels with a higher Class "A" fire rating compared with Glasbord-P's "C" rating.

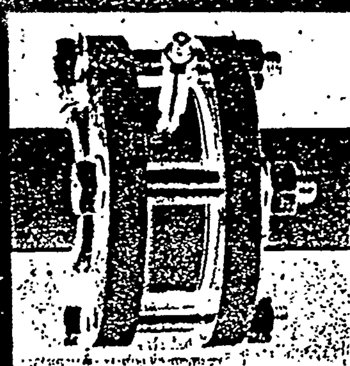
A variety of high voltage, low loss, nonmagnetic RF capacitors manufactured by Polyflon.

Another development is the pultruded grid system which will be used for suspending FRP ceiling panels in highly corrosive environments. The addition of these new products will improve both sales and profits in 1987.

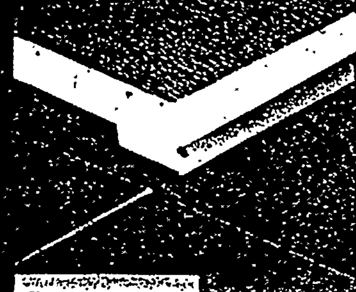
Resistoflex products are used to control and move corrosive or toxic substances, primarily in the process industries. The chemical process industry (CPI) continued to be depressed throughout 1986. Increased demand in the pharmaceutical and electronics areas offset the CPI downturn. In 1987 Resistoflex is looking to improve its market share through marketing of products such as its patented High Integrity Flanged Piping System. This redundant sealing system prevents leakage of hazardous fluids in plastic-lined pipes by monitoring and containing any leakage that might occur.

During 1986 Polyflon concentrated on developing new customers for its microwave substrate systems and adding new high-voltage/high-frequency capacitors to its line. Excellent growth is anticipated in military electronics, Polyflon's major market.

Robert Muller (at left), President and David Ciarlette, Chief Financial Officer of Engineered Materials in Dyrotech's Joliet plant.



High Integrity piping system from Resistoflex prevents leakage of hazardous fluids.

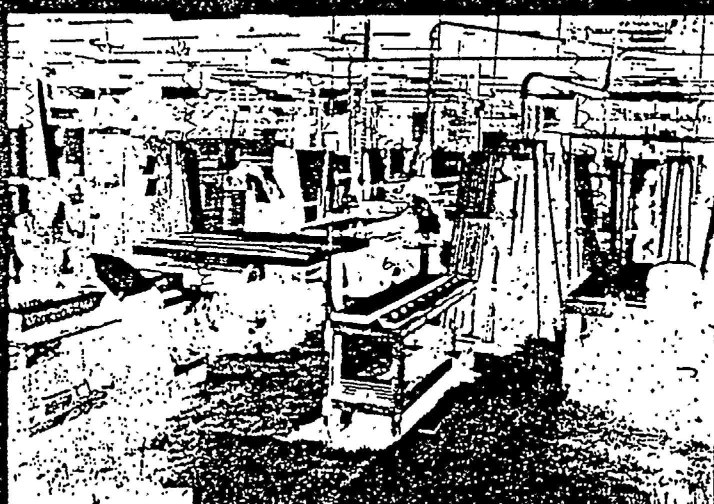


A pultruded grid system for suspension of FRP ceiling panels in highly corrosive environments.

CRTX 0660

Huttig Sash & Door Company

Huttig is a major distributor of millwork and related products with a network of 41 distribution warehouses in the Southeast, Midwest and Northeast plus a window sash lumber mill in Montana. It markets high-performance, low-maintenance windows and doors as well as wood molding to building materials dealers and residential and commercial contractors.

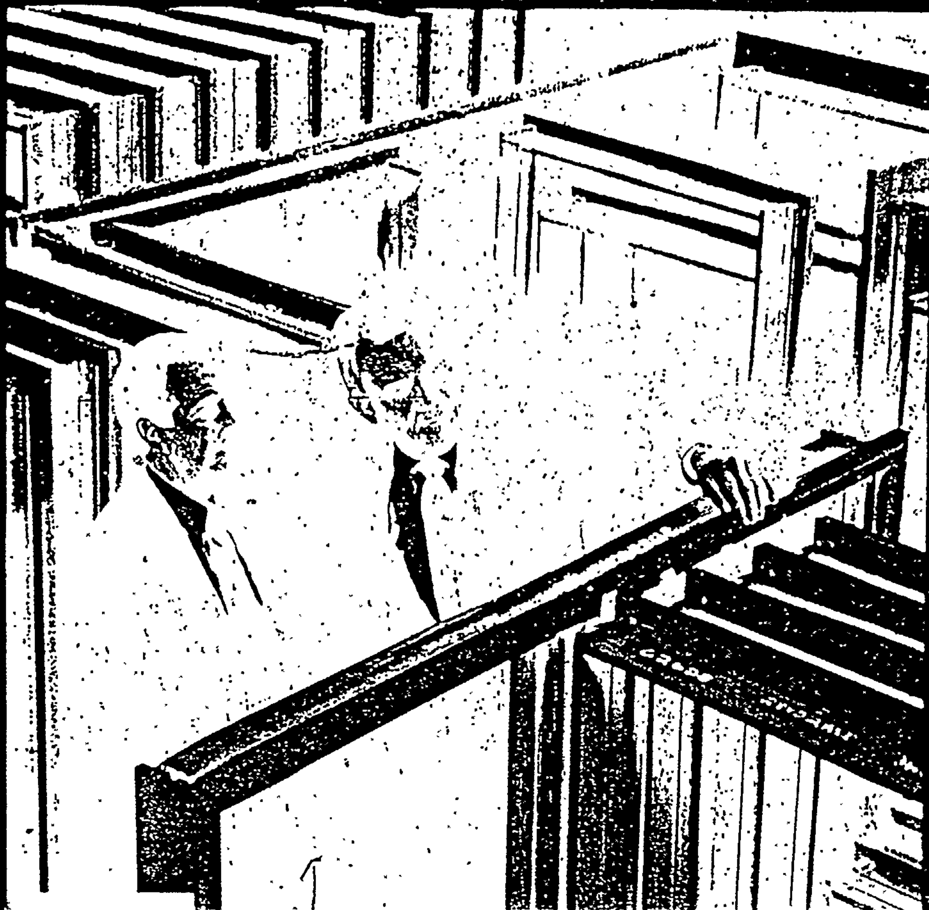


Assembly area of a typical Hu. Ig distribution center.

1986 was a record year for Huttig in both sales and profits. It was also a year that saw profitable expansion into many markets that were not being served. Early in 1986 distribution centers were purchased in Albuquerque, New Mexico and Green Bay, Wisconsin. In September Huttig acquired five additional distribution centers in the strong remodeling, rehabilitation and residential construction areas of the Northeast, a market not previously serviced by any Huttig location. These branches in Boston, Massachusetts; Burlington, Vermont; Hartford, Connecticut; Portland, Maine and Syracuse, New York give Huttig a market territory that includes the largest population concentration in the United States. This takes Huttig a step closer to its goal of a nationwide network of distribution centers.

A new, modern, 200,000-square-foot manufacturing facility to manufacture the low-cost Huttig wood window will be opened and in operation during the first quarter of 1987 in Rock Hill, South Carolina. The operation will be twice the size of the present glazing and manufacturing facilities and will feature modern, continuous process treating, priming and prefinishing facilities.

Expansion opportunities, either through the acquisition or opening of new locations, will continue to be explored in 1987. Marketing emphasis will be placed on further penetration in the replacement, remodeling and light commercial markets.



Roger Sutton (at left), VP & General Sales Manager, and Stuart Wells, President of Huttig, checking customer order at Fredericksburg, Virginia branch.

Huttig trucks being loaded for delivery from a Huttig branch.

CRTX 0662

Over 100,000 tons of Medusa cement was used in construction of this wastewater treatment plant.

Medusa produces portland and masonry cements and aggregates and provides highway construction services to government agencies. Medusa serves the eastern half of the United States with its principal markets in the Midwest and Southeast regions.

(From left) John Siegfried, *Secretary & General Counsel;* Dan Somes, *President, Medusa Corporation;* Brian Bammel, *VP, Controller & Asst. Treasurer;* Elbert Kaiser, *Plant Manager; and* Phillip Gutman, *Senior VP, in control room of highly automated Charlevoix, Michigan plant.*

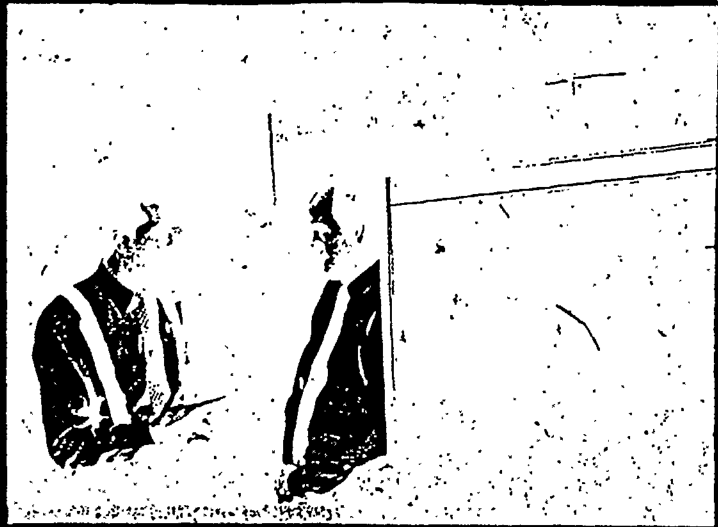
Medusa had a significant increase in sales and, more importantly, operating profits were two-and-a-half times the prior year's. The sales increase was the result of a strong construction market with increased cement shipments in Michigan, Illinois, Ohio and western Pennsylvania; and extremely good aggregate shipments in Kentucky, North Carolina and Missouri. This volume increase, combined with low incremental costs, the successful effort to reduce operating costs, and some selling price increases, were the major factors behind the significant profit improvement.

Major capital spending projects were started in 1986 which, when completed during 1987 and 1988, will allow the Charlevoix, Michigan plant to market an additional 300,000 tons of cement. This will mean that for the first time the full production capability of this plant can be utilized. The expenditures involve building new terminals and expanding another, plus the addition of a new barge to provide the needed transportation capability. The barge and the new terminal in Toledo, Ohio will be completed in 1987. Several other capital investments were made in 1986 to reduce costs, improve product quality, and expand the distribution system.

Looking ahead, Medusa expects the construction market to remain strong in 1987. This, combined with the capital improvements made in 1986 and those coming on line in 1987, points to another year of improved profitability. The declining value of the U.S. dollar could also help stabilize cement prices by decreasing imports.

CRTX 0663

Merchandising Systems



Robert Muller (at left), President of Merchandising Systems, with Art Klopstein, Plant Manager, discussing production scheduling at St. Louis, Missouri National Vendors' plant.

National Vendors, the major component of this segment, is a leading manufacturer of automatic merchandising equipment for use by food vending service operators in the United States, Canada and the United Kingdom. The equipment is available in six basic categories: snack, hot and cold drink, food, cigarettes and currency changers.

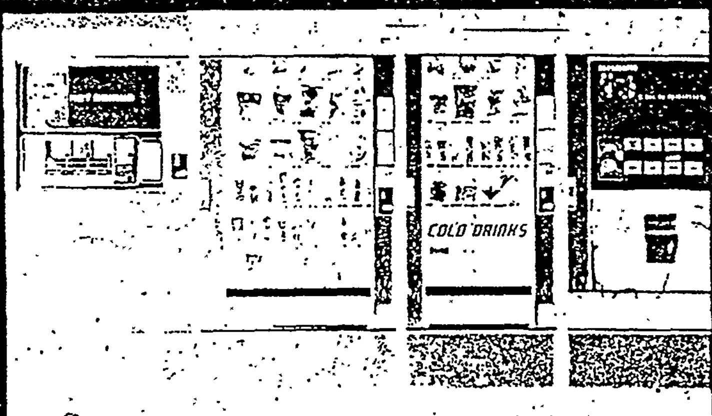
In a thrust to gain additional volume, the office service market was entered with the completely redesigned Refreshtron line and the new Refreshtron Three. The latter is a machine that vends freshly brewed coffee, canned cold drinks, snacks and candies all in one high-tech unit. The laundry and amusement operators were also approached with a new line of dollar bill changers and a generic line of equipment including snack and cigarette machines. These new market penetrations were accomplished with National Vendors' existing sales force and a newly established distributor network.

In addition to other new product introductions, customer service was reorganized to provide faster parts delivery through the consolidation of the parts department and the addition of an automated parts delivery system.

The above actions, plus new marketing and distribution policies and cost-reduction programs, resulted in a significant improvement in profitability in 1986.

National Rejectors, Inc., GmbH, located in West Germany, achieved particular success in the European market with a line of fully electronic coin acceptors and changers.

National Vendors' new electronic vending machine line, the high-tech TRON 2000 series.



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Consolidated Statements of Income

Crane Co. and Subsidiaries

For Years Ended December 31 (In thousands)	1986	1985	1984
Net Sales	$1,204,236	$1,098,848	$792,212
Operating Costs and Expenses:			
Cost of sales	932,014	855,353	626,429
Selling, general and administrative	153,221	142,969	93,877
Depreciation	27,649	30,734	23,178
Non-recurring restructuring provision	—	25,428	—
	1,112,884	1,054,484	743,484
Operating Profit	91,352	44,364	48,728
Other Income (Deductions):			
Interest expense—net of interest income of $4,378, $4,060 and $5,815 in 1986, 1985 and 1984	(22,995)	(24,908)	(10,386)
Miscellaneous—net	3,868	6,774	3,562
	(19,127)	(18,134)	(6,824)
Income before Taxes	72,225	26,230	41,904
Provision for Income Taxes	33,847	8,633	10,939
Net Income	$ 38,378	$ 17,597	$ 30,965
Net income per share:			
Primary	$2.80	$1.28	$2.09
Fully Diluted	2.53	1.27	2.04
Average primary shares outstanding	13,719	13,729	14,822

See Financial Review

CRTX 0665

Consolidated Statements of Retained Earnings

Crane Co. and Subsidiaries

For Years Ended December 31 (In thousands except share data)	1986	1985	1984
Balance at Beginning of Year	$ 65,802	$123,057	$138,256
Net Income	38,378	17,597	30,965
	104,180	140,654	169,221
Dividends Declared:			
Preferred shares	—	2	6
Common shares:			
Cash—$1.17 per share ($1.07 in 1985 and $1.05 in 1984)	15,883	14,626	15,294
Stock—2% (market value of 179,901 shares in 1985 and 204,224 in 1984)	—	5,820	6,231
Excess of Cost Over Par Value of Reacquired Common Shares—Net (through June 30, 1984): 862,837 shares in 1984 reacquired less 1,242 issued under stock options in 1984	—	—	24,633
Distribution of CF&I Steel Common Stock	—	54,404	—
	15,883	74,852	46,164
Balance at End of Year	$ 88,297	$ 65,802	$123,057

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Consolidated Statements of Capital Surplus

For Years Ended December 31. (In thousands except share data)	1986	1985	1984
Balance at Beginning of Year	$ 51,221	$ 52,089	$ 64,736
Par value of 4,569,495 common shares issued as a 50% distribution	(28,559)	—	—
Excess of debentures converted over par value of 30,479 common shares issued (101,747 in 1985 and 18,475 in 1984)	125	799	141
Excess of market value over par value of common shares issued as a 2% stock dividend	—	4,695	4,955
Excess of market value over par value of 190,742 common shares reacquired under pension reversion	—	(5,865)	—
Excess of cost over par value of reacquired shares since July 1, 1984—preferred, none (1,651 in 1985 and none in 1984), 401,873 common (33,700 in 1985 and 550,100 in 1984), less 61,700 common issued under stock options (2,601 in 1985 and none in 1984)	(8,525)	(909)	(17,743)
Excess of market price over par value of 13,202 shares issued as a contribution to UniDynamics Employee Benefit Plan (13,555 in 1985)	288	412	—
Balance at End of Year	$ 14,550	$ 51,221	$ 52,089

See Financial Review

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Consolidated Balance Sheets

At December 31 (In thousands except share data)	1986	1985
Assets		
Current Assets:		
Cash	$ 6,445	$ 15,845
Short-term investments, at lower of cost or market	10,277	33,291
Accounts receivable, less allowance of $2,409 ($2,967 in 1985)	146,305	151,665
Inventories, at lower of cost, principally LIFO, or market; replacement cost would be higher by $50,395 ($49,070 in 1985):		
Finished goods	104,628	87,966
Work in process	41,427	42,856
Raw materials and supplies	34,906	31,690
	180,961	162,512
Other current assets	11,618	12,701
Total Current Assets	355,606	376,014
Property, Plant and Equipment at Cost:		
Land	22,009	19,504
Buildings and improvements	131,018	121,920
Machinery and equipment	388,962	372,448
	541,989	513,872
Less accumulated depreciation	320,358	301,110
	221,631	212,762
Other Assets:		
Construction funds	12,308	11,895
Intangibles less accumulated amortization of $6,642 ($1,925 in 1985)	15,740	20,483
Other	11,305	12,859
	39,353	45,237
Cost in Excess of Net Assets Acquired less accumulated amortization of $8,119 ($6,544 in 1985)	34,222	25,673
	$650,812	$659,686

See Financial Review

	1986	1985
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 10,106	$ 10,747
Loans and notes payable	22,001	14,714
Accounts payable	55,177	47,362
Accrued liabilities	76,703	73,191
U.S. and foreign taxes on income	3,384	18,881
Total Current Liabilities	167,371	164,895
Long-Term Debt	232,087	275,918
Reserves and Other Liabilities	29,114	25,473
Deferred Pension Credit	30,072	35,903
Deferred Income Taxes	19,137	—
Common Shareholders' Equity:		
Common shares, par value $6.25;		
Authorized — 40,000,000 shares		
Outstanding — 13,369,528 shares (9,096,525 in 1985) after deducting 7,406,699 shares in treasury (7,018,028 in 1985)	83,560	56,853
Capital surplus	14,550	51,221
Retained earnings	88,297	65,802
Currency translation adjustment	(13,376)	(16,379)
Total Common Shareholders' Equity	173,031	157,497
	$650,812	$659,686

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Consolidated Statements of Changes in Financial Position

Crane Co. and Subsidiaries

For Years Ended December 31 (In thousands)	1986	1985	1984
Funds provided by operations:			
Net income	$ 38,378	$ 17,597	$ 30,965
Depreciation	27,649	30,734	23,178
Pension reversion amortization	(4,060)	(3,989)	—
Deferred income taxes	9,272	(479)	(169)
Other—net	7,840	18,784	2,626
Funds from operations	79,079	62,647	56,600
Capital expenditures	(25,788)	(18,890)	(14,465)
Disposals of property, plant and equipment, net of foreign currency adjustments	3,625	(2,223)	4,237
Decrease in operating working capital	4,861	25,430	7,223
(Increase) decrease in other assets	(3,580)	(3,729)	220
Increase (decrease) in reserves and other liabilities	10,020	(1,979)	(3,653)
Currency translation adjustments	3,003	4,279	(7,058)
Net funds provided by operations	71,220	65,535	43,104
Financial sources(uses) of funds:			
Acquisitions	(31,934)	(208,599)	—
Divestitures	870	15,281	8,286
Long-term debt:			
New debt	17,574	124,282	789
Repayments	(60,260)	(27,348)	(62,267)
Increase in long-term investments	(5,000)	—	—
Increases to reflect UniDynamics' final appraisals under 338 election, net of working capital change	(4,068)	—	—
Decrease in investments held for disposal:			
Land and water rights	5,031	21,440	29,374
CF&I Steel Corporation	—	54,404	—
Reacquisition of shares, less options exercised	(10,283)	(783)	(51,200)
Conversion of debt to common shares	319	1,445	258
Crane shares received under pension reversion	—	(7,057)	—
Pension asset reversion, net of deferred tax	—	20,358	—
Distribution of CF&I Steel to shareholders	—	(54,404)	—
Cash dividends	(15,883)	(14,628)	(15,300)
Net financial uses	(103,634)	(75,609)	(90,160)
Decrease in cash and short-term investments	(32,414)	(10,074)	(47,056)
Cash and short-term investments at beginning of year	49,136	59,210	106,266
Cash and short-term investments at end of year	$ 16,722	$ 49,136	$ 59,210

See Financial Review

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Accounting Policies

Principles of Consolidation-The consolidated financial statements include all subsidiaries. All significant intercompany items have been eliminated. Certain prior year amounts have been reclassified to conform with 1986 presentation, including the Statements of Changes in Financial Position.

Inventories-Inventories are stated principally at the lower of cost or market 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, $1,500,000 and $2,000,000 in 1986, 1985 and 1984, respectively.

Property, Plant and Equipment-Depreciation was provided at accelerated rates primarily using the double declining balance method for property, plant and equipment acquired prior to 1985. Acquisitions made subsequent to 1984 are being depreciated using the straight-line method over their estimated useful lives. The effect of the change in 1985 was not material.

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-Investment tax credits are recorded as a reduction of the provision for income taxes in the year the related assets are placed in service. 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 income per share calculations are based upon the weighted average number of common shares outstanding after giving effect to dilutive stock options. Fully diluted income 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 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.

Foreign Currency-Currency translation adjustments for the years 1986, 1985 and 1984 were credits of $3,003,000 and $4,279,000 and a charge of $7,058,000, respectively. Subsidiaries operating outside the United States and Canada represented approximately 15 percent of common shareholders' equity at December 31, 1986.

Reacquisition of Shares-Commencing July 1, 1984 the excess of cost over par value of reacquired shares has been charged to capital surplus in accordance with changes in the laws of the state of Illinois, the state of incorporation at that time. Under the laws of Delaware, the present state of incorporation, the company continues to charge capital surplus for such excess.

Acquisitions

In 1986 the company acquired PickOmatic, a producer of cam-actuated parts handling equipment as an addition to Defense and Specialty Systems, and seven distribution centers in the New England, northern New York, Wisconsin and New Mexico markets as additions to Huttig Sash & Door. These acquisitions did not have a material effect on the results of operations in 1986.

In February 1985 the company acquired UniDynamics Corporation, a diversified manufacturer of defense and specialty systems, engineered materials, and merchandising systems, for $192,258,000 (including working capital of $95,042,000). The acquisition was accounted for as a purchase and an election under Section 338 of the Internal Revenue Code was filed in July 1986. The 1985 financial statements include the accounts of UniDynamics from February 1, 1985. The following pro forma results reflect adjustments as if the acquisition had occurred as of January 1, 1984.

(In thousands)	1985	1984
Net sales	$1,127,645	$1,173,261
Operating profit	46,683*	68,891
Net income	$ 17,918	$ 32,421
Net income per common share	$1.31	$2.19

*Includes non-recurring restructuring costs in the amount of $25,428 in 1985.

Other acquisitions during 1985 include the valve service operations of Mark Controls, a quarter turn valve distributor and the Aloyco specialty stainless steel valve line.

Investments Held for Disposal

In May 1985, the company distributed to its shareholders its common stock investment in CF&I Steel Corporation resulting in a one-time reduction of $54,404,000 in retained earnings. The company continues to hold for disposal certain land and water rights purchased in 1983 by the company from CF&I in consideration for the surrender by the company of a $50,000,000 secured note receivable from CF&I. The sale of the remaining land and water rights is expected to be completed during 1987 and any proceeds net of costs incurred in excess of $50,000,000 will be paid to CF&I as additional consideration.

Pensions

The company and its subsidiaries have pension plans which cover substantially all of their employees. Pension expense ($1,844,000 in 1986, $3,015,000 in 1985 and $1,821,000 in 1984) is actuarially determined and includes normal cost and amortization of prior service costs over periods not exceeding forty years. The assumed rate of return on investments is 8% for all years. Pension costs in 1986 and 1985 are reduced by the amortization over a ten-year period of credits resulting from the reversion of surplus assets in 1985 for the pension plans covering non-bargaining employees of the company and its subsidiaries, Huttig Sash & Door Company and Medusa Corporation.

Pension costs were determined in accordance with Accounting Principles Board Opinion No. 8. The company will adopt the Financial Accounting Standards Board's Statements Nos. 87 and 88 in 1987. The effect of this change in accounting will increase pension costs approximately $4,500,000 primarily due to the fact that the pension reversion credit amortization will no longer be available. Approximately $11,000,000 of the unamortized credit, net of taxes of $10,200,000, will be included in income as a cumulative effect of a change in accounting in 1987. The balance of the credit, approximately $11,000,000, will be set up as a liability to provide for the unfunded projected benefit obligation as of December 31, 1986 relating to the pension plans for which reversions were made.

The UniDynamics principal pension plan had more assets in the fund than were required to fund the pension benefits earned to date. In view of the over-funding, guaranteed annuities were purchased for all benefits earned as of December 31, 1985. All active participants were transferred to a new plan having identical benefits to the old plan as of January 1, 1986. The company expects to receive approximately $18,000,000 which had been set up as an asset under purchase accounting. As of December 31, 1986, $15,500,000 had been received.

A comparison at December 31 of accumulated plan benefits and net assets available for benefits for the company's pension plans is presented below:

(In thousands)	1986	1985
Actuarial present value of accumulated plan benefits:		
Vested	$ 78,914	$ 88,102
Nonvested	3,584	3,266
	$ 82,498	$ 91,368
Net assets available for benefits	$125,355	$138,595

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The weighted average rate of return assumed in determining the actuarial present value of accumulated plan benefits was approximately 8 percent for 1986 and 10 percent for 1985. The change to 8 percent in 1986 increased the present value of accumulated plan benefits by approximately $9,000,000.

The cost of providing health care and life insurance benefits on a claims paid basis for certain retired employees was approximately $2,100,000 and $2,300,000 in 1986 and 1985, respectively.

Miscellaneous—Net

For Years Ended December 31 (In thousands)	1986	1985	1984
Recovery related to land sales	$3,500	$4,000	$ —
Gain on disposal of capital assets—net	1,178	1,090	2,745
Minority interest	(952)	(627)	(616)
Gain on repurchase of long-term debt	48	1,460	2,262
Other	94	851	(829)
	$3,868	$6,774	$3,562

Restructuring of Operations

In December 1985, the company made a provision of $25,428,000 before taxes for restructuring and closure of certain operations.

The provision was made for the costs relating to relocation of certain product lines, revaluation of affected plant and equipment, employment related costs including an estimate of the present value of unfunded pension costs and other benefits of affected employees plus a provision for the continuing costs until the relocation, consolidation, or closure has been completed. See Analysis by Segment for breakout by segments.

Accrued Liabilities

At December 31 (In thousands)	1986	1985
Payrolls and employee benefits	$30,217	$25,874
Insurance	8,361	8,028
Interest	6,337	6,928
Sales allowances	5,434	5,065
Dividend payable	4,039	—
Restructuring and closure costs	3,770	11,254
Taxes other than income	3,697	2,928
Other	14,848	13,114
	$76,703	$73,191

Reserves and Other Liabilities

At December 31 (In thousands)	1986	1985
Pension and wage benefits	$10,905	$ 2,327
Restructuring and closure costs	7,876	14,174
Minority interest	7,083	6,851
Miscellaneous	3,250	2,121
	$29,114	$25,473

Short-Term Financing

At year-end there were available with domestic and foreign banks $78,514,000 in short-term credit lines of which $56,513,000 were unused at that time. Average compensating balances for lines of credit in effect at December 31, 1986 were $1,265,000 which were satisfied by compensating balances in the company's bank accounts. Such compensating balances reflect informal agreements and are not restricted as to withdrawal.

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Long-Term Financing

At December 31 (In thousands)	1986	1985
Crane Co.:		
Senior debt:		
8¾% Convertible senior debentures due 2005, convertible at $28.80 per share	$ 75,000	$ 75,000
Bank credit agreement due 1990-$75,000 available	—	40,000
Subordinated debt:		
10½% Sinking fund debentures due 1994	31,934	36,534
7% Sinking fund debentures due 1993	8,733	10,094
7% Debentures due 1994	48,032	48,259
5% Convertible debentures due 1993 and 1994, convertible at $8.33 to $9.58	1,753	2,072
Other, principally capital lease obligations	5,392	6,014
Total Crane Co.	170,844	217,973
Subsidiaries:		
9½% Sinking fund debentures due 1999	14,253	14,253
Floating rate bank loans due 1991:		
United States	7,500	—
United Kingdom	4,552	3,982
Industrial Revenue Bonds	23,078	26,785
Other, principally capital lease obligations	11,860	12,925
Total subsidiaries	61,243	57,945
	$232,087	$275,918

At December 31, 1986, the principal amounts of long-term debt repayments, net of amounts held in treasury, required for the next five years were $10,106,000 in 1987, $14,759,000 in 1988, $12,340,000 in 1989, $11,472,000 in 1990 and $17,650,000 in 1991.

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 6½% Sinking Fund Debentures due 1992 not held in the company's treasury. This in-substance defeasance resulted in a pre-tax gain of $1,292,000 in 1985. At December 31, 1986 there was $10,606,000 outstanding.

Covenants contained in the company's bank credit agreement and 8¾% convertible senior debt indenture (i) restrict payment of cash dividends (ii) require the company to maintain working capital of at least $150,000,000 (iii) require a minimum consolidated net worth (at December 31, 1986 $11,957,000 was unrestricted) and (iv) restrict the amount of funded debt which may be outstanding at any time.

At December 31, 1986, the aggregate amount of subsidiary earnings available for dividends was $150,798,000.

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 thirty 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, 1986:

(In thousands)	Capital Leases	Operating Leases	Minimum Sublease Income	Net
1987	$ 4,751	$12,074	$ 787	$16,038
1988	2,258	9,268	387	11,139
1989	2,089	7,020	263	8,846
1990	1,986	5,156	232	6,910
1991	1,973	4,084	165	5,892
Thereafter	14,227	15,005	763	28,469
Total minimum lease payments	27,284	$52,607	$2,597	$77,294
Interest	(9,276)			
Present value	$18,008			
Portion:				
Current	$ 3,223			
Long-term	14,785			
	$18,008			

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Research and Development

Product development and engineering costs aggregated approximately $11,200,000, $10,700,000 and $7,700,000 in 1986, 1985 and 1984, respectively. In addition, approximately $6,800,000 and $8,400,000 was received in 1986 and 1985, respectively, for customer sponsored research and development relating to projects within Defense and Specialty Systems.

Stock Options

A summary of stock option transactions follows:

	Number of Shares
Outstanding January 1, 1986	251,318
50% Stock distribution	164,313
Options granted	122,500
Options expired	12,222
Options exercised	61,700
Outstanding December 31, 1986	464,209

At December 31, 1986, options for 104,163 shares were exercisable and 215,718 shares were available for grant. Shares and per share prices (ranging from $19.19 to $31.63) have been adjusted for the 50 percent stock distribution. In 1985, options for 2,601 shares were exercised. The plan is not a compensatory plan which would require a charge to income.

Common Share Purchase Rights

The company adopted a Common Share Purchase Rights Plan effective May 19, 1986. Under the plan, a right was distributed to the holder of each share of the company's common stock on June 5, 1986. The 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 common stock, or shares of common stock of the acquiring person. The rights will remain in existence until June 5, 1996, unless they are exercised or redeemed.

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.

Auditors' Opinion

Deloitte Haskins+Sells

To the Shareholders of Crane Co.

We have examined the consolidated balance sheets of Crane Co. and subsidiaries as of December 31, 1986 and 1985 and the related consolidated statements of income, retained earnings, capital surplus, and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated financial position of Crane Co. and subsidiaries at December 31, 1986 and 1985 and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

New York, New York
January 26, 1987

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Five Year Summary of Selected Financial Data

Crane Co. and Subsidiaries

Years Ended December 31 (In thousands)	1986	1985	1984	1983	1982*
Net Sales	$1,204,236	$1,098,848	$792,212	$771,679	$763,563
Depreciation	27,649	30,734	23,178	25,488	31,251
Operating Profit**	91,352	44,364	48,728	23,792	5,534
Interest Expense	27,373	28,968	16,201	21,591	26,750
Income before Taxes	72,225	26,230	41,904	46,365	26,914
Income Taxes	(33,847)	(8,633)	(10,939)	(19,988)	(7,624)
Income — Continuing Operations	$ 38,378	$ 17,597	$ 30,965	$ 26,377	$ 19,290
Income Per Common Share — Continuing Operations:					
Primary	$2.80	$1.28	$2.09	$1.66	$1.21
Fully Diluted	2.53	1.27	2.04	1.61	1.19
Dividends Declared Per Common Share:					
Cash	$1.17	$1.07	$1.05	$1.03	$1.01
Stock	—	2%	2%	2%	2%
Assets	$650,812	$659,686	$460,421	$575,916	$729,457
Long-Term Debt	$232,087	$275,918	$138,524	$202,232	$221,081

*Restated to reflect segment held for disposal.

**Includes non-recurring restructuring costs in the amount of $25,428 in 1985 as well as certain other reclassifications to conform prior years with the 1986 presentation.

Quarterly Results for the Year *(Unaudited)*

(In thousands) Quarter	Net Sales	Gross Profit	Net Income (Loss)	Net Income (Loss) Per Common Share
1986				
1st	$ 259,290	$ 49,123	$ 4,231	$ .31
2nd	310,763	64,935	11,047	.80
3rd	323,122	66,297	12,511	.91
4th	311,061	66,159	10,589	.78
	$1,204,236	$246,514	$38,378	$2.80
1985				
1st	$ 223,549	$ 40,910	$ 2,747	$ .20
2nd	297,664	60,785	9,194	.67
3rd	297,410	57,274	9,155	.67
4th	280,225	57,166	(3,499)*	(.26)
	$1,098,848	$216,135	$17,597	$1.28

*Reflects a $25,428 pre-tax charge for non-recurring restructuring costs.

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Results of Operations

The operating results of 1986 showed substantial improvement over 1985, reflecting the continued strength of the major markets the company serves, particularly the residential and commercial construction and aircraft components markets. The acquisition of UniDynamics Corporation in 1985 extended our markets into Defense and Specialty Systems, Engineered Materials and Merchandising Systems. The results of these segments have been included in the consolidated results from February 1, 1985.

Fluid Systems and Controls domestic operations' continued increase in sales was due to strong demand for its aircraft components, as well as the inclusion for the full year of three small acquisitions made in 1985 in its valves business. An increase in earnings from the higher sales level of aircraft components was offset by the impact of reduced margins in the industrial valve and pollution control markets. The costs associated with the restructuring of the domestic valve operations reduced 1985 operating profit by approximately \$16 million.

Canadian Fluid Systems and Controls operating results improved significantly over the last two years, particularly in plumbing products, due to the high level of housing starts. This was partially offset by the reduced demand for energy-related industrial valves. The impact of cost reduction measures and implementation of manufacturing efficiencies during the last three years are reflected in the improved operating results.

International Fluid Systems and Controls sales and operating profit continued at low levels primarily reflecting weak demand and the impact of competitive pricing for valve and fitting products. The 1985 operating results were impacted by a provision of \$1.4 million for the disposal of an operation, which was completed in 1986.

Defense and Specialty Systems had sales slightly above last year. The decline in earnings from last year was due to the timing of production phases on several major contracts. Earnings in 1985 included a \$1 million charge for relocating a facility. In 1986, this segment acquired PickOmatic Systems, Inc., a producer of cam-actuated parts handling equipment. Although business competition is expected to be strong, the continuing program of broadening the product base as well as the segment's strong technical position, should continue to improve its position in the markets served.

Engineered Materials performance in 1986 was below the prior year primarily due to the continued weakness of the transportation market. The continued low levels of capital spending by the chemical process industry served by this segment also adversely affected the 1986 and 1985 results. The 1985 results included a charge of \$4.5 million for the closure of certain operations, which was completed in 1986. New products to be introduced in 1987 are expected to penetrate the revitalized recreation vehicle market.

Merchandising Systems earnings improved significantly from 1985, although sales decreased from last year. The lower sales are due to the sale of the segment's Universal Nolin operation in 1985. The significant improvement in profitability was due to new product introductions, as well as the impact of cost reduction measures and manufacturing efficiencies implemented over the last two years.

Huttig Sash & Door operating results for 1986 were the highest in their history. In addition to two branches acquired early in 1986, Huttig expanded its operation into market areas not previously served, with its acquisition in late 1986 of five branches located in the strong replacement, remodeling and residential construction areas of the Northeast. Any adverse effect of fluctuations in new residential construction or reduced margins in the farm belt and energy producing states should be offset by the expanded market base served by Huttig.

Medusa sales and earnings improved significantly over 1985 and 1984 levels. The sales increase was a result of the strong construction market in the upper Midwest. The increase in volume coupled with lower operating costs and improved margins were major factors contributing to the strong performance in 1986. Capital spending projects to provide new distribution terminals and additional transporting capabilities in the Great Lakes, that began in 1986, should result in Medusa maintaining a strong position in their market.

Net interest expense was below the 1985 level but significantly above 1984. The reduction in 1986 was due to lower average debt outstanding and interest rates, partially offset by lower investment income. The increase from 1984 was due to the debt incurred in connection with the acquisition of UniDynamics.

During 1986 excess land and facilities, primarily in Medusa, were disposed of at pre-tax gains of $1.2 million. Similar actions in 1985, primarily in Fluid Systems and Controls, resulted in pre-tax gains of $1.1 million. Miscellaneous income in 1986 and 1985 included recoveries of $3.5 million and $4.0 million respectively, from the sales of land and water rights held for disposal.

Depreciation expense decreased $3.1 million from 1985 primarily due to the reduced levels of capital spending during the several years prior to 1986 and the change in depreciation methods from accelerated to straight-line for all additions during and subsequent to 1985.

Income taxes for 1986 were significantly above 1985. The increased effective tax rate of 46.9%, compared with 32.9% in 1985, was primarily due to higher realization of foreign tax credits in 1985 and lower investment tax credits realized in 1986 due to the 1986 Tax Reform Act, as well as higher state taxes in 1986. Implementation of the United States tax law change should reduce our effective tax rate for 1987 by approximately four percentage points from the 1986 level.

Liquidity and Capital Resources

The company has depended primarily upon earnings and bank borrowings (including short-term credit lines) to furnish capital to finance operations and working capital. The company has utilized proceeds from the sales of capital assets, including assets held for disposal, over the last three years to help fund construction and repay debt. During 1985 the company issued $75 million Convertible Senior debt due 2005 as well as entered into a $75 million bank credit agreement. At December 31, 1986, this available credit facility was unused compared with year end 1985 when $40 million was drawn down. The reversion of the excess pension fund assets of UniDynamics was completed and $15.5 million of the $18 million was received in 1986. In 1985 the company and its subsidiaries, Huttig Sash & Door and Medusa Corporation, completed a reversion of excess pension fund assets resulting in the company receiving $40 million of surplus assets before tax.

The company had cash and short-term investments of $16.7 million at the end of 1986. In addition, there was available $75.0 million under the bank credit agreement and $56.5 million of unsecured credit lines.

In May 1985 the company distributed to its shareholders its common stock investment in CF&I Steel Corporation resulting in a reduction of $54.4 million in retained earnings. The balance of the land and water rights, now less than $4 million, purchased from CF&I in 1983 for $50 million, is expected to be sold in 1987.

In 1987 the company will adopt the new FASB pension accounting pronouncements. The accounting changes will result in a one-time credit of approximately $11 million related to pension reversion and an estimated increase in pension expense of $4.5 million.

Analysis by Segment

Crane Co. and Subsidiaries

(In thousands)	1986 Amount	%	1985 Amount	%	1984 Amount	%
Net Sales:						
Fluid Systems and Controls:						
Domestic	$ 242,948	20	$ 231,334	21	$ 223,556	28
Canada	151,915	13	139,068	13	130,361	17
International	61,294	5	61,238	5	62,176	8
Total	456,157	38	431,640	39	416,093	53
Defense & Specialty Systems	137,228	11	127,475	12	—	—
Engineered Materials	81,318	7	75,963	7	—	—
Merchandising Systems	79,511	7	85,491	8	—	—
Huttig Sash & Door Company	289,504	24	240,133	22	239,204	30
Medusa Corporation	160,518	13	138,146	12	136,915	17
Total Net Sales	$1,204,236	100	$1,098,848	100	$ 792,212	100
Operating Profit:						
Fluid Systems and Controls:						
Domestic	$ 33,017	32	$ 16,106*	26	$ 24,371	44
Canada	11,307	11	9,340	15	6,027	11
International	2,696	2	863*	1	3,241	6
Total	47,020	45	26,309	42	33,639	61
Defense & Specialty Systems	12,165	12	14,478*	23	—	—
Engineered Materials	2,965	3	(497)*	(1)	—	—
Merchandising Systems	3,853	3	(903)	(1)	—	—
Huttig Sash & Door Company	21,562	21	16,932	27	19,182	35
Medusa Corporation	16,308	16	5,970	10	2,441	4
	103,873	100	62,289	100	55,262	100
Corporate	(12,521)		(17,925)*		(6,534)	
Total Operating Profit	$ 91,352		$ 44,364*		$ 48,728	
Assets:						
Fluid Systems and Controls:						
Domestic	$ 89,579	14	$ 86,743	15	$ 69,912	21
Canada	57,834	9	50,375	9	52,887	16
International	37,454	6	40,341	7	35,303	11
Total	184,867	29	177,459	31	158,102	48
Defense & Specialty Systems	126,679	20	106,773	18	—	—
Engineered Materials	60,012	10	69,093	12	—	—
Merchandising Systems	51,478	8	48,806	8	—	—
Huttig Sash & Door Company	103,046	17	84,850	15	74,692	22
Medusa Corporation	101,870	16	93,908	16	97,895	30
	627,952	100	580,889	100	330,689	100
Investments Held for Disposal	2,081		7,112		82,955	
Corporate	20,779		71,685		46,777	
Total Assets	$ 650,812		$ 659,586		$ 460,421	

*Reflects pre-tax charge for costs of restructuring and closure of certain operations of $25,428 in 1985; $16,124 Fluid Systems and Controls—Domestic, $1,376 Fluid Systems and Controls—International, $1,000 Defense and Specialty Systems, $4,500 for Engineered Materials and $2,428 Corporate.

	Capital Expenditures			Depreciation		
	1986	1985	1984	1986	1985	1984
Fluid Systems and Controls:						
Domestic	$ 1,721	$ 3,778	$ 3,016	$ 3,990	$ 4,964	$ 5,145
Canada	2,718	1,824	1,185	1,256	1,045	1,290
International	1,101	1,765	1,785	2,089	2,256	1,877
Total	5,540	7,367	5,986	7,335	8,265	8,312
Defense & Specialty Systems	3,050	2,082	—	3,916	3,707	—
Engineered Materials	527	2,349	—	2,098	2,323	—
Merchandising Systems	1,414	1,308	—	1,170	1,624	—
Huttig Sash & Door Company	4,489	2,232	2,152	1,640	1,535	1,542
Medusa Corporation	10,707	2,490	6,327	11,258	12,602	13,324
Corporate	61	1,062	—	232	678	—
Total	$25,788	$18,890	$14,465	$27,649	$30,734	$23,178

Market and Dividend Information—Common Shares

	New York Stock Exchange Composite Price Per Share				*Dividends Per Share*	
	1986		1985		1986	1985
Quarter	HIGH	LOW	HIGH	LOW		
1st	$32	$24⅞	$23⅜	$21⅛	$ .27	$ .27
2nd	33⅞	29	25⅜	22	.30	.27
3rd	30¼	26⅝	26⅛	23⅞	.30	.27
4th	36⅞	27⅞	27⅛	23⅜	.30	.26
					$1.17	$1.07

At December 31, 1986 there were approximately 8,150 holders of Crane Co. common stock.

CRTX 0679

Operations

Fluid Systems and Controls
New York, New York
J. M. Fraser, President

- Chempump Division
  Warrington, Pennsylvania
- Cochrane Environmental Systems Division
  King of Prussia, Pennsylvania
- Deming Division
  Salem, Ohio
- Hydro-Aire Division
  Burbank, California
- Midwest Fittings
  St. Louis, Missouri
- Valves & Fittings Division
  King of Prussia, Pennsylvania
- Crane Australia Pty. Limited
  Sydney, Australia
- Crane Canada, Inc.
  Montreal, Canada
- Crane Ltd.
  London, England

Defense & Specialty Systems
St. Louis, Missouri
M. Appelman, President

- Unidynamics/Midwest
  St. Louis, Missouri
- Unidynamics/Phoenix
  Phoenix, Arizona
- Unidynamics/St. Louis
  St. Louis, Missouri
- Resistoflex/Defense
  Jacksonville, Florida
- Ferguson Machine Company
  St. Louis, Missouri
- Ferguson Machine Company, S.A.
  Braine-le-Chateau, Belgium
- HPM (High Performance Machines)
  Sterling Heights, Michigan
- PickOmatic Systems, Inc.
  Sterling Heights, Michigan

Engineered Materials
Joliet, Illinois
R. J. Muller, Jr., President

- Dyrotech Industries, Inc.
  Joliet, Illinois
- Polyflon Company
  New Rochelle, New York
- Resistoflex Company
  Roseland, New Jersey

Merchandising Systems
St. Louis, Missouri
R. J. Muller, Jr., President

- National Vendors
  St. Louis, Missouri
- National Rejectors, Inc., GmbH
  Buxtehude, West Germany

Huttig Sash & Door Company
Chesterfield, Missouri
S. P. Wells, President

Medusa Corporation
Cleveland, Ohio
D. E. Somes, President

Directors

E. Thayer Bigelow, Jr.[2,3]
Chief Financial Officer, Time, Inc.;
Information and Entertainment

Walter J.P. Curley
Private Venture Capital Investments

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

Dante C. Fabiani[1,2]
Retired President of the Company

Richard S. Forté
General Partner, Forte Cashmere
Company; Importer and
Manufacturer

Robert W. Lear[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
The Paul Garrett Professor
Columbia University,
Graduate School of Business
(Elected February, 1987)

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

Jack M. Fraser
Executive Vice President

Paul R. Hundt
Vice President, Secretary &
General Counsel

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

Gerard E. Dorsey
Treasurer

Michael L. Raithel
Controller

Corporate Vice Presidents

B. Jack Barnes
William C. Dackis
Robert R. Foster
Richard B. Phillips
Thomas F. Spencer

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

Form 10-K
Copies of Form 10-K for 1986 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, April 27, 1987 in the First Floor Meeting Room of the Bankers Trust Building, 280 Park Avenue, New York, N.Y. 10022.

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

Stock Transfer Agent
Morgan Guaranty Trust
Company of New York
New York, New York 10015

Registrar of Stock
The Chase Manhattan Bank, N.A.
New York, New York 10015

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

Mellon Bank, N.A.
Pittsburgh, Pennsylvania 15258

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.

CRANE

Crane Co.
757 Third Avenue
New York, NY 10017