PLAINTIFF'S
EXHIBIT
CRA-43

Crane Co.

1989 Annual Report

CRTX 0755

Crane Co.

[illegible] aerospace [illegible] automatic merchandising [illegible] construction industry [illegible] wholesale distribution [illegible] serves the building products markets and industrial [illegible] Founded in 1855, Crane employs over 10,000 people in North America, Europe and [illegible]

Cover

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Operations

Engineered Industrial Products

Chempump Division
Warrington, Pennsylvania

Cochrane Environmental Systems Division
King of Prussia, Pennsylvania

[illegible]

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

Crane Defense Systems
St. [illegible], Missouri

Crane Ltd.
[illegible]

[illegible]

Hydro-Aire Division
Burbank, California

[illegible]

St. Louis, Missouri

National Ryerson [illegible]
[illegible]

[illegible]

[illegible]

[illegible]

Wholesale Distribution

Huttig Sash & Door Co.
Chesterfield, Missouri

Crane Canada, Inc.
Crane Supply Division
Montreal, Canada

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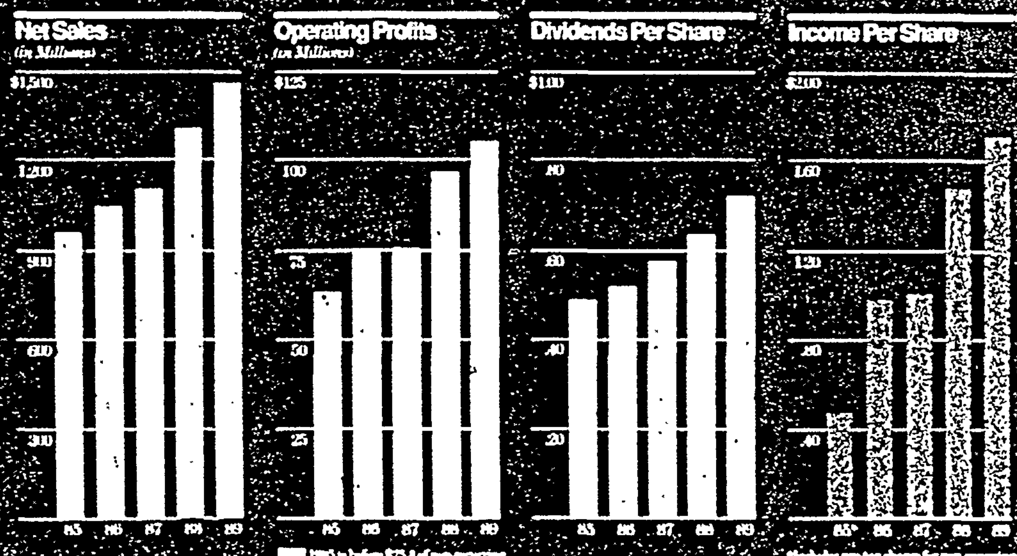
Crane Co. and Subsidiaries

Financial Highlights

(In thousands except per share data)	1989	1988	1987	1986	1985
Net Sales	$1,455,589	$1,313,136	$1,099,596	$1,043,718	$960,702
Operating Profit	105,045	95,666	75,130	75,044	38,394(d)
Income before Taxes— Continuing Operations	91,579	81,490	58,541	55,305	20,945
Income Taxes	(35,660)	(32,304)	(25,837)	(26,520)	(6,360)
Income from Continuing Operations(a)	$ 55,919	$ 49,186	$ 32,704(c)	$ 28,785	$ 14,585
Per Primary Share:(b)					
Income from Continuing Operations(a)	$1.72	$1.46	$.97(c)	$.94	$.48
Cash Dividends Declared	.71	.62	.58	.52	.47
Average Shares Outstanding	32,583	33,656	33,826	30,867	30,890

(a) *Excludes income from segment distributed to shareholders of $13,297 ($.39 per share) in 1988, $20,909 ($.62 per share) in 1987, $9,593 ($.31 per share) in 1986, and $3,012 ($.09 per share) in 1985.*
(b) *Adjusted for 50% stock distribution in 1989, three-for-two stock split in 1987, 50% stock distribution in 1986 and 2% stock dividend in 1985.*
(c) *Income before cumulative effect of a change in accounting of $5,673 ($.16 per share).*
(d) *Includes charge for non-recurring restructuring costs in the amount of $25,428.*

Continuing Operations



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

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

Letter to Shareholders

Dear Shareholders:

Crane Co. had another excellent year in 1989. Earnings per share from continuing operations increased from $1.46 to $1.72 or 18% on an 11% increase in sales. Even better, cash flow, which consists of earnings plus depreciation and non-cash charges, was up 24% from $2.33 to $2.89 per share. Return on stockholders' equity was 20.4%, again over our goal of 20%, and should place us in the top 30% of Fortune 500 companies. The company's stock price increased 50% during the year compared to 31.5% for the S&P 500. Cash dividends were increased 12.5% from $.67 to $.75 per share and a 50% stock distribution was made to increase market liquidity.

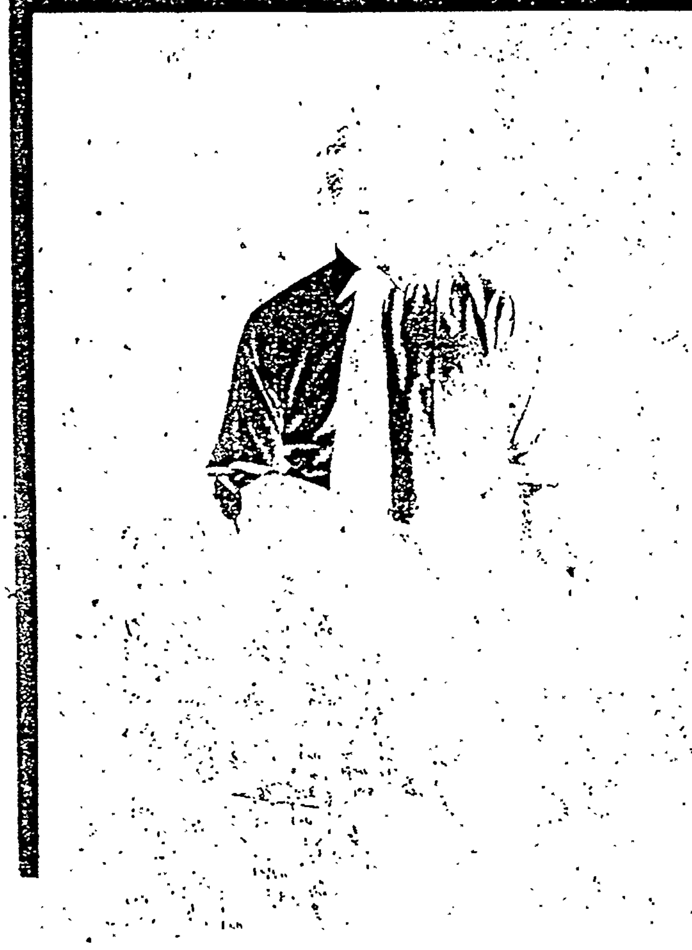
While 1989 was a strong year for Crane, we still have a number of areas which offer opportunities for improvement. The U.S. Valve operations showed improvement from ongoing operations. However, extensive inventory write-offs for discontinued product lines and expenses at closed plants produced an unacceptable loss. The lower level of housing starts and reduced defense spending hurt the segments of our business which serve these markets. In response we took actions in 1989 to insure improved results in these areas for 1990 and beyond.

Crane's debt is the lowest it has been in many years. Our net debt to equity ratio has declined from 73% in 1987 to 64% in 1988 and 53% at the end of 1989. Crane's strong financial position provides the capability to take advantage of any opportunities to enhance shareholder value which may arise from the weakened economic outlook and the difficulties being experienced by many highly leveraged companies. Acquisitions should be available at favorable prices in the current environment. These opportunities will be weighed against the purchase of our own stock at favorable prices. During 1989 we were able to purchase the equivalent of 1.8 million shares at an average price of $18 per share.

We have just announced the acquisition of the Lear Romec Corporation, a manufacturer of pumps for the aerospace industry. This acquisition adds to Hydro-Aire's capabilities in the aerospace business and we believe was available on attractive financial terms.

Crane's reported earnings per share in 1989 of $1.72 were reduced by a non-cash charge of $.08 per share incurred due to the accelerated vesting of the 1988 restricted stock grants caused by the increase in Crane's share price by 50% over the price on the day of the grant. The Crane Board of Directors has pursued a policy of trying to align shareholder and management interests over the last six years. Stock options, stock appreciation rights and restricted stock have been used aggressively to achieve this goal. The results show that Crane has provided a total cumulative return to shareholders over the past six years of 395% versus 163% for the S&P 500.

In 1989, Mr. Walter J.P. Curley, a Crane Director since 1980, was appointed Ambassador to France and had to resign as a director. We deeply regret losing Mr. Curley's wisdom, judgment and



Robert S. Evans
Chairman,
Chief Executive Officer
and President

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Letter to Shareholders

continued

experience but are pleased and reassured that the United States will be well represented by him. Mr. Dorsey R. Gardner, a strong advocate of shareholder interests, was appointed to fill Mr. Curley's position. Mr. Gardner had previously been a director and we are pleased to have him back.

Mr. R.K. Whitley, Vice President-Finance, retired in 1989 after twenty-five years of service. We will miss him both personally and professionally. He made a strong contribution to Crane over the years. Mr. Jeremiah P. Cronin, formerly Senior Vice President-Finance & Administration with Research-Cottrell, Inc., replaced Mr. Whitley.

Increased attention to environmental concerns has led to the appointment of Mr. Anthony D. Pantaleoni, Vice President Environment, Health and Safety. Crane is committed to being an environmentally responsible company. We will continue to do all that we can to correct existing problems and avoid future mistakes.

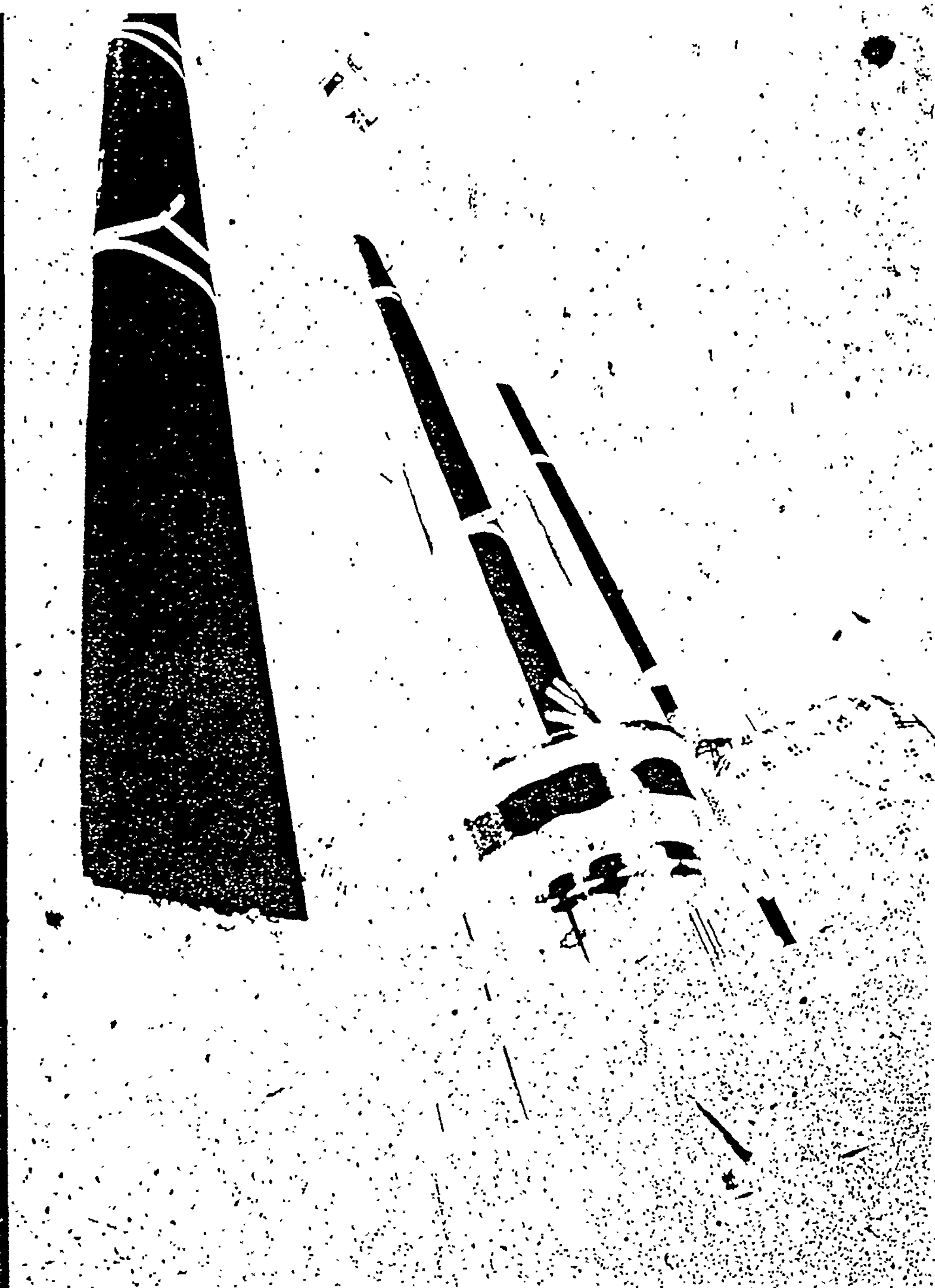
I would like to thank all Crane employees for the success we have achieved and recognize that what makes Crane a strong company are the people who work to serve our customers and shareholders.

Sincerely,

R.S. Evans

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

February 26, 1990



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

Engineered Industrial Products

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Engineered Industrial Products
(continued)

Crane Valves was reorganized in 1989 by consolidating the domestic Valve Division and the Valve Services Group and relocating the headquarters to Joliet, Illinois. This realignment was designed to reduce overall costs and better position this business in the marketplace. In addition, a full range of aftermarket services, including parts, repairs and valve modifications are now being offered from within the same organization. Several low-profit product lines were discontinued in 1989 to allow Crane Valves to concentrate its marketing efforts on more profitable lines of valves and services. Non-recurring charges associated with these product discontinuations accounted for approximately 80% of 1989's loss. With these charges behind it, substantial improvement is expected in 1990.

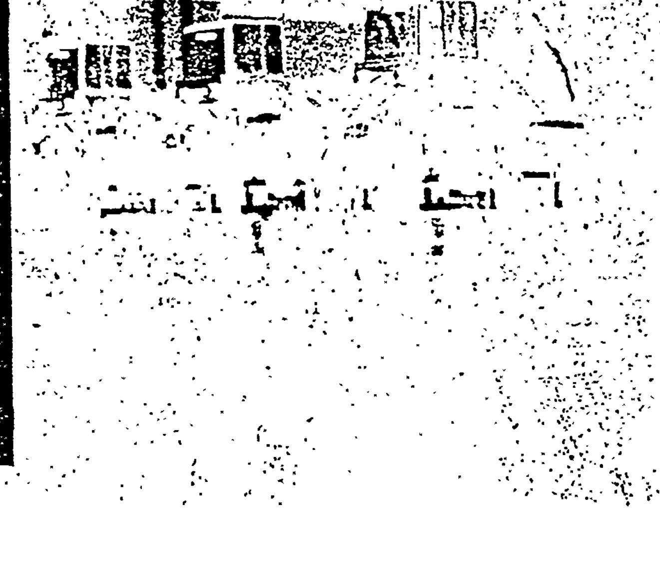
Valve Systems and Controls is an industrial distributor supplying automated valves and complete systems to industry. The company's aggressive marketing efforts during 1989 contributed to a substantial increase in sales and profits for the year. Operations were expanded in 1989 to five locations which, along with the continued new construction of chemical plants in the Gulf Coast area, contributed to these successes.

The *Chempump Division* concentrated on maintaining and enhancing its market position as the leader in leakproof pump technology, through product improvement, new product introductions, and designs added in March 1989 by the acquisition of the canned motor pump operations of Dresser Industries' Pacific Pump Division. These designs, along with the introduction of a magnetically driven leakproof pump, have increased market share for Chempump by enabling it to offer alternative canned pump designs for specific pump applications. Recently, increased EPA monitoring of fugitive emissions and leakage has accelerated future growth for Chempump products as a major solution to these environmental problems.

Deming Pump Division designs and manufactures a line of vertical turbine and horizontal centrifugal pumps that primarily serve the clean and dirty water segments in the general industrial, municipal and wastewater treatment markets. In 1989 Deming continued to concentrate its efforts on providing an improved level of customer service and obtaining further penetration of the pharmaceutical, fuel and specialty chemical markets. The Model 4705 Turbine Transfer Pump, with Deming's liquid locking feature which prevents surface leakage and environmental contamination, has been instrumental in gaining acceptance in the above mentioned markets.

Cochrane Environmental Systems designs, engineers and markets water and wastewater treatment systems for almost every major industry. In 1989 Cochrane's operating

An inventory of standard and specialty valves and valve actuators enables Valve Systems and Controls to meet a customer's specific flow control requirements.



Deming irrigation pumps drawing water from a 3 million gallon holding pond for irrigation of a central Florida hay field.

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performance increased significantly compared to previous years with most product lines gaining market share both domestically and overseas. During the year, Cochrane acquired selected assets of Belco Pollution Control Water Division, formerly a division of Foster Wheeler USA Corp., a major supplier of water treatment and pollution control equipment.

Hydro-Aire manufactures proprietary products for the commercial, military and general aviation markets. A worldwide leader in the design and manufacture of electronically controlled anti-skid braking systems, Hydro-Aire products also include an extensive variety of fuel pumps, hydraulic valves and other electro-mechanical devices.

Hydro-Aire had an excellent year in 1989 as the commercial air transport market continued to expand at an impressive rate. Boeing achieved record sales of its airplanes and started deliveries of the new 747-400 aircraft. McDonnell Douglas continued significant sales of the MD-80 airplane, while completing the design of the new MD-11 transport, which will be placed in service in the near future. Hydro-Aire provides the brake control systems, hydraulic valves and fuel boost pumps for most of these aircraft.

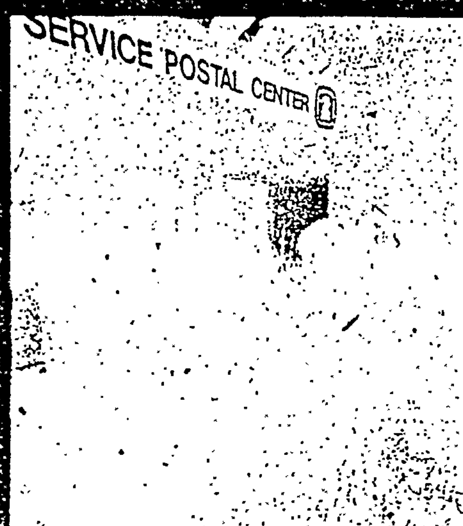
Although a general reduction in defense spending continues to reduce Hydro-Aire's military business, contracts to supply brake controls for four critical military programs have placed this division in a position to capitalize on any expansion of these military opportunities in the '90s. The general aviation and commuter markets are continuing to improve where production rates have increased on new derivatives of existing models, with new models also being introduced by many of the general aviation companies.

National Vendors continued to solidify its leadership position in the design, manufacture and sale of electronic vending equipment for snacks, hot and cold beverages, perishable food, cigarettes, currency and coin changers. In three years, National Vendors increased its market share by 32% through the introduction of advanced microprocessor controls and product lines not offered by the competition.

In 1989, National Vendors introduced a third generation glass-front product merchandiser called the SnackCenter, and a postal commodity vendor developed for the U.S. Postal System. The SnackCenter contains many unique design features creating a leading edge in the largest segment of the full line vending market. The SnackCenter design features merchandising flexibility, whereby both food and non-food items of varying

To remove destructive contaminants and improve the reliability of microcircuits incorporated in Hydro-Aire's braking controls, all subassemblies are subjected to plasma cleaning prior to final encapsulation.

A National Vendors vending machine developed for the U.S. Postal System in operation at a busy Washington, DC, shopping mall.



Engineered Industrial Products

(continued)

size and shape can now be vended from product shelves that quickly adjust in height, width and depth which creates new vending machine product applications. National Vendors received a major contract to engineer and manufacture the postal commodity vendor that is now being placed at postal facilities and high traffic locations throughout the U.S. This advanced microprocessor-controlled unit accepts up to $20.00 bills and dispenses 16 selections of postage merchandise. A continued commitment to research and development along with aggressive market positioning programs will ensure National Vendors' future growth for its full range of product entries.

Kemlite Company, the leading supplier of fiberglass reinforced plastic panels to the transportation and building products industries, shipped the highest level of product in its 35-year history. By successfully introducing new products such as a translucent fiberglass roof panel for the transportation market and by expanding its distributor network, Kemlite was able to increase its overall market share during 1989. Glasbord roof panel continues to replace aluminum in truck bodies and trailers, following Ryder Truck's conversion of its entire rental fleet to Glasbord. International sales improved significantly in 1989, and an even faster sales pace is expected in 1990.

CorTec is the largest U.S. manufacturer of custom-designed fiberglass reinforced plywood (FRP) laminates. These panels are primarily used for truck bodies and trailers, although non-transportation demand has been steadily increasing. During 1989 CorTec supplied initial quantities of highway billboard signs after a two-year development and testing program. Development of new products and laminate applications are a key part of CorTec's marketing strategy to drive future growth.

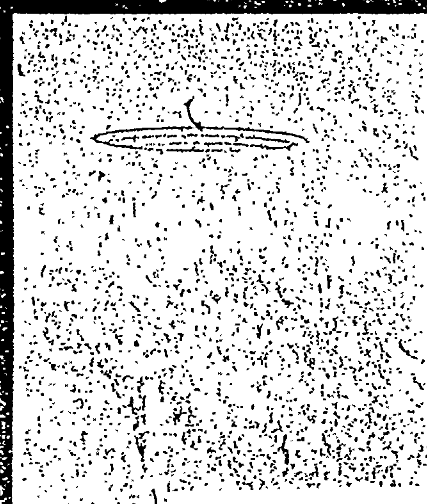
Polyflon manufactures high performance microwave substrate materials and capacitors for use in military and commercial communications, aerospace and medical industries. The magnetic resonance imaging (MRI) market continues to offer new applications for Polyflon's components and materials. Polyflon's proprietary process of electroplating polytetrafluoroethylene (PTFE) has enhanced MRI coil performance and improved image quality. Polyflon looks for excellent results in this growth market.

Ferguson produces and sells transfer and positioning devices to the industrial automation market.

Ferguson reached forecast sales levels for 1989, but had reduced profit due to the costs associated with the relocation of its custom cam product line

Kemlite translucent roof panel provides many user advantages including inside visibility to reduce loading and unloading time and a reduction of overall trailer weight.

Polyflon magnetic resonance imaging coils used in soft tissue analysis and spectroscopic coils for element analysis.



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to another company manufacturing facility.

Several new products were introduced during the year, including a precision tabletop conveyor and a line of indexers with internal overload couplings to service the food and beverage industry.

In Europe, Ferguson's new Munich facility continues to expand its production resulting in increased market share and expanded impact abroad.

Resistoflex/Industrial is a leading manufacturer of plastic lined pipe and fittings, valves, expansion bellows, underground gasoline hoses and reaction vessel components. The division, now in its second full year of production in its new Marion, North Carolina plant, experienced increased sales and record earnings. Leading edge technology in the moulding and forming of high performance resins has placed Resistoflex in an excellent position to maintain its domestic leadership in fluoropolymer-lined products.

Resistoflex/Defense is a leading supplier of separable lip seal fittings and teflon-lined braided hose to the aerospace industry. Although the major market for these products is the defense industry, Resistoflex was able to increase new orders by 60% through improved customer service and a significant increase in its in-house manufacturing capability. To offset reduced defense spending, marketing strategies are being directed to the commercial aircraft after-market.

Unidynamics/Phoenix develops and manufactures precision ordnance and related electromechanical and electronic devices for the Departments of Energy and Defense. Orders for specialized devices for the Department of Energy and for the Trident D-5 continue at a high level. Six new components were added to the Department of Energy production programs during the year. In addition, a multi-year procurement contract was obtained to provide the ignition for the flight motor of the TOW missile, and another contract is in process for detonators aboard the Maverick missile.

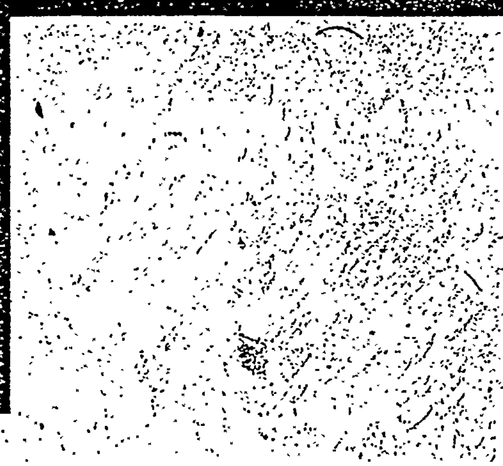
The consolidation of Crane Midwest and Crane Defense took place in 1989 with Crane Midwest moving to the Defense Systems' facility. The two groups have formed *Crane Defense Systems* with manufacturing facilities in St. Louis, Missouri; Highland, Illinois; and Conroe, Texas. This consolidation enables Crane Defense Systems to support its manufacturing facilities with a single engineering and administrative staff, allowing for an improved competitive posture within the defense market. In 1989, Crane Defense Systems received contracts to supply equipment on the new DDG-51 Class AEGIS Destroyer and the LHD-1 Class, Amphibious Assault Ship.

International

Crane Limited, United Kingdom consists of two business units: *Fluid Systems* which manufactures valves, pumps and pipe fittings and *Crane Industrial*

At Unidynamics/Phoenix a new, contamination controlled assembly area assures complete reliability of precision electromechanical devices.

Crane Limited's fire pump package is designed to meet rigid mechanical and hydraulic requirements of modern fire protection methods.



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Engineered Industrial Products

(continued)

which reaches specialty markets for fluid control equipment, pumps and maintenance services.

Fluid Systems Division increased its market share of pipe fittings and valves in 1989. Among its major developments were the introduction of a comprehensive range of bronze valves and the launching of a major engineering-design-driven cost reduction program to lower the cost of bronze valve components by as much as 25%. New marketing arrangements in Spain have added to Crane's ability to expand the sales of valve products outside of the U.K.

Crane Industrial continues to develop its industrial maintenance service activities in the valve, pump and heat exchanger refurbishing market. Fire pump sales continue to grow, increasing its U.K. market share to almost 30%. A new fully integrated computer system, which has been specifically designed to accommodate its wide geographical spread of business activities, will be fully operational in 1990. In September, negotiations to profitably sell the Blackett Hutton steel foundry were concluded resulting in improved operating ratios for Crane Limited.

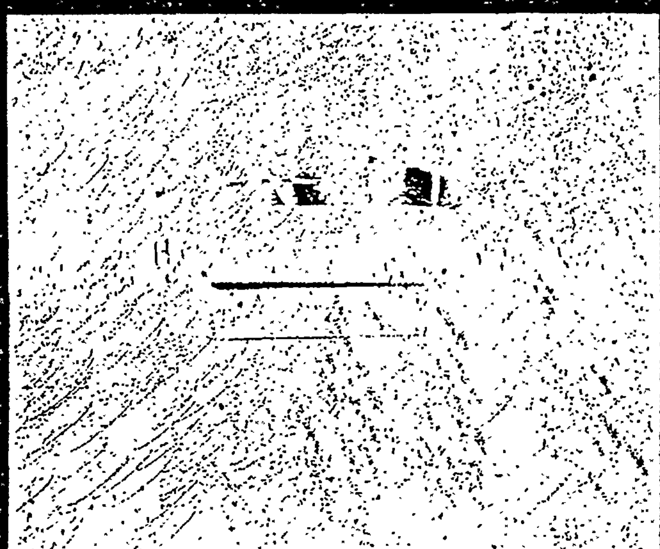
Crane Australia, Pty., Limited manufactures and supplies valves to the hydrocarbon and petrochemical markets in Australia, New Zealand, Indonesia and Malaysia. In addition, the company operates comprehensive valve modification and service facilities throughout Australia. Despite operating in a very tight fiscal economy, where bank interest rates of 20% or more prevailed, sales and profits increased during 1989 and the order backlog remains healthy going into 1990.

Canada

Crane Canada manufactures products sold to the residential, commercial and industrial construction markets. The *Plumbing Division* produces and markets a complete line of high-quality plumbing products. A decline in housing starts along with strong import and domestic competition directed marketing efforts toward the commercial, institutional and renovation markets. As a result, the division was able to maintain its strong share of the total market. The introduction of new products continued in 1989 with a low-silhouette water closet, a line of shower stalls and bases and a lavatory for the handicapped. With pottery production difficulties solved, Crane Canada will be in a favorable position to meet continued demand for plumbing products and increase market share of its china, acrylic and brass plumbing lines in 1990.

The *Valve and Industrial Division* designs, purchases and manufactures a wide variety of valves to control all types of fluids and chemicals in a variety of industries. Sales for 1989 were significantly ahead of last year's with waterworks valves benefiting from a growing infrastructure rehabilitation market throughout Canada.

Crane Canada's Stratford plant produces over 100,000 porcelain-on-steel bathtubs per year using the latest robotic welding technology.



Crane Australia is a major supplier of valves to petrochemical and hydrocarbon processing plants and oil refineries throughout Australia.

Wholesale Distribution

Finishing the installation of a Huttig Arma Seal window equipped with full jamb weatherstrip and Huttig insulated glass.

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Wholesale Distribution

(continued)

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 three wood window assembly facilities strategically located throughout its distribution system.

Following the rapid expansion of Huttig in 1988, the focus in 1989 was one of integration and consolidation. Resources were devoted to the integration of the Palmer G. Lewis Co., Inc. acquisition into Huttig, and the consolidation of overlapping distribution markets.

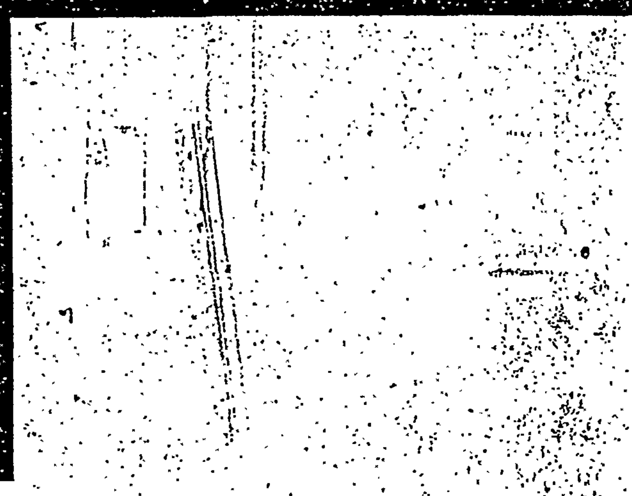
Two distribution centers in the Greater San Francisco, California market were merged and a decline in business activity in the Northeast resulted in the consolidation of certain distribution centers in the northern New England area. Huttig also redeployed its Florida distribution network resulting in the reduction of one facility. All three consolidations should provide improved operating performance in these geographic markets.

In 1989, Huttig completed the start-up phase of its California window business, which was initiated in 1988 with three window stores in southern California and a new assembly operation in Fresno. The refinements and improvements accomplished in 1989 will transform these four operations into meaningful profit centers in the years to come and will position Huttig as a major supplier of wood windows to the southern California new construction, replacement and remodeling markets.

While Huttig's markets were weak in 1989, the company improved its market share, leaving it better positioned for 1990 and beyond.

The *Crane Supply Division* serves the residential, commercial and industrial markets with branches across Canada distributing valves, pipes and plumbing products produced by Crane Canada and other manufacturers. A reduced housing market in all regions was offset by a strong waterworks business and a good level of commercial and industrial spending activity. Margins, however, were lower due to stiff price competition.

Building a Huttig "True Divided Light" insulated window, available in many light configurations as well as several sash options.



Loading a trailer at Huttig's Southern Manufacturing plant in Rock Hill, South Carolina for delivery to a Huttig branch in the area.

Consolidated Statements of Income

For Years Ended December 31 (In thousands except per share data)	1989	1988	1987
Net Sales	$1,455,589	$1,313,136	$1,099,596
Operating Costs and Expenses:			
Cost of sales	1,136,063	1,024,242	854,156
Selling, general and administrative	193,167	173,484	152,043
Depreciation	21,314	19,744	18,267
	1,350,544	1,217,470	1,024,466
Operating Profit	105,045	95,666	75,130
Other Income (Deductions):			
Interest expense—net of interest income of $2,327, $1,730 and $1,328 in 1989, 1988 and 1987	(16,850)	(17,112)	(17,772)
Miscellaneous—net	3,384	2,936	1,183
	(13,466)	(14,176)	(16,589)
Income before Taxes—Continuing Operations	91,579	81,490	58,541
Provision for Income Taxes	35,660	32,304	25,837
Income before Cumulative Effect of a Change in Accounting	55,919	49,186	32,704
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	55,919	49,186	38,377
Income from Segment Distributed to Shareholders—Medusa Corporation, net of taxes of $6,727 and $10,869 in 1988 and 1987, respectively	—	13,297	20,909*
Net Income	$ 55,919	$ 62,483	$ 59,286
Primary Net Income Per Share:			
Continuing Operations:			
Income before cumulative effect of a change in accounting	$1.72	$1.46	$ .97
Cumulative effect of a change in accounting—pension reversion	—	—	.16
Income from Continuing Operations	1.72	1.46	1.13
Income from Segment Distributed to Shareholders—Medusa Corporation	—	.39	.62*
Net Income	$1.72	$1.85	$1.75
Average primary shares outstanding	32,583	33,656	33,826
Fully Diluted Net Income Per Share:			
Continuing Operations:			
Income before cumulative effect of a change in accounting	$1.69	$1.45	$ .94
Cumulative effect of a change in accounting—pension reversion	—	—	.16
Income from Continuing Operations	1.69	1.45	1.10
Income from Segment Distributed to Shareholders—Medusa Corporation	—	.38	.59*
Net Income	$1.69	$1.83	$1.69
Average fully diluted shares outstanding	33,036	34,049	35,808

** Includes cumulative effect of a change in accounting for gain on pension asset reversion of $3,329 ($.10 per primary share and $.09 per fully diluted share), net of taxes of $3,082.*

See Financial Review

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Crane Co. and Subsidiaries

Consolidated Balance Sheets

At December 31 (In thousands except share data)	1989	1988
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,855	$ 40,000
Short-term investments	1,200	1,621
Accounts receivable, less allowance of $1,502 ($2,273 in 1988)	173,050	170,567
Inventories, at lower of cost, principally LIFO, or market; replacement cost would be higher by $45,890 ($43,199 in 1988):		
Finished goods	134,624	135,775
Finished parts and subassemblies	23,654	20,395
Work in process	26,030	30,493
Raw materials	25,033	26,423
	209,341	213,086
Other current assets	9,889	6,759
Total Current Assets	398,335	432,033
Property, Plant and Equipment at Cost:		
Land	23,528	23,414
Buildings and improvements	127,500	128,032
Machinery and equipment	229,823	213,975
	380,851	365,421
Less accumulated depreciation	192,546	183,445
	188,305	181,976
Other Assets:		
Investments	13,516	5,125
Intangibles, less accumulated amortization of $19,539 ($16,196 in 1988)	4,405	8,193
Other	8,213	11,952
	26,134	25,270
Cost in Excess of Net Assets Acquired, less accumulated amortization of $4,516 ($3,223 in 1988)	41,783	42,461
	$654,557	$681,740

See Financial Review

	1989	1988
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 11,223	$ 14,085
Loans payable	20,422	48,508
Accounts payable	73,649	61,187
Accrued liabilities	77,271	69,121
U.S. and foreign taxes on income	1,873	2,392
Total Current Liabilities	184,438	195,293
Long-Term Debt	119,102	143,133
Reserves and Other Liabilities	9,266	11,667
Accrued Pension Liability	11,038	13,888
Deferred Income Taxes	46,869	43,132
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—31,808,027 shares (21,858,461 in 1988) after deducting 15,203,693 shares in treasury (13,934,658 in 1988)	31,808	21,858
Capital surplus	63,260	92,436
Retained earnings	194,021	163,723
Currency translation adjustment	(5,245)	(3,390)
Total Common Shareholders' Equity	283,844	274,627
	$654,557	$681,740

Crane Co. and Subsidiaries

Consolidated Statements of Cash Flows

For Years Ended December 31 (In thousands)	1989	1988	1987
Cash Flows from Operating Activities:			
Income from continuing operations	$ 55,919	$ 49,186	$ 32,704
Depreciation	21,314	19,744	18,267
Other non-cash charges to earnings	16,971	9,516	9,960
Cash provided from (used for) operating working capital	7,790	(28,714)	1,857
Dividends received from Medusa	—	84,300	13,613
Other	(1,087)	3,388	(3,190)
Total from Operating Activities	100,907	137,420	73,211
Cash Flows from Investing Activities:			
Capital expenditures	(33,189)	(17,865)	(16,250)
Proceeds from disposition of capital assets	9,433	4,557	5,124
Equity investments	(8,080)	—	—
Payments for acquisitions, net of liabilities assumed of $143 in 1989 and $34,169 in 1988	(1,495)	(47,558)	—
Proceeds from divestitures	3,378	—	7,619
Acquisition of minority interest in subsidiary	—	—	(7,904)
Total from Investing Activities	(29,953)	(60,866)	(11,411)
Cash Flows from Financing Activities:			
Long-term debt:			
New debt	21,826	3,868	18,462
Repayments	(45,024)	(17,566)	(21,221)
Dividends paid	(22,731)	(25,544)	(18,538)
Reacquisition of shares	(32,296)	(27,570)	(42,043)
Stock options exercised	3,146	2,424	2,137
Redemption of common share purchase rights	—	(738)	—
Net increase (decrease) in short-term debt	(31,050)	15,767	5,178
Total from Financing Activities	(106,129)	(49,359)	(56,025)
Effect of exchange rate on cash and cash equivalents	30	190	502
Increase (decrease) in cash and cash equivalents	(35,145)	27,385	6,277
Cash and cash equivalents at beginning of year	40,000	12,615	6,338
Cash and cash equivalents at end of year	$ 4,855	$ 40,000	$ 12,615

Detail of Cash Provided from (Used for) Operating Working Capital			
Short-term investments	$ 421	$ 402	$ (248)
Accounts receivable	(6,532)	(6,952)	(1,219)
Inventories	1,847	(12,899)	(4,455)
Other current assets	(3,338)	3,098	(140)
Accounts payable	14,673	(3,892)	917
Accrued liabilities	1,155	(9,305)	7,394
U.S. & foreign taxes on income	(436)	834	(392)
Total	$ 7,790	$ (28,714)	$ 1,857
Supplemental disclosure of cash flow information:			
Interest paid	$ 19,417	$ 17,656	$ 19,010
Income taxes paid	35,619	19,852	13,603

See Financial Review.

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Crane Co. and Subsidiaries

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, 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
Net income	—	—	55,919	—	55,919
Cash dividends	—	—	(22,731)	—	(22,731)
50% stock distribution, 10,563,607 shares	10,564	(10,564)	—	—	—
Reacquisition of 1,269,035 shares	(1,269)	(31,027)	—	—	(32,296)
Exercise of stock options, 236,197 shares	236	2,910	—	—	3,146
Conversion of debentures, 23,377 shares	23	112	—	—	135
Restricted stock awarded, 395,420 shares, net	396	9,393	(2,890)	—	6,899
Currency translation adjustment	—	—	—	(1,855)	(1,855)
At December 31, 1989	$31,808	$ 63,260	$194,021	$ (5,245)	$283,844

See Financial Review

Financial Review

Accounting Policies

Principles of Consolidation—The consolidated financial statements include all subsidiaries. Medusa Corporation, which was reported as a segment held for distribution, was distributed to shareholders on October 7, 1988. All significant intercompany items have been eliminated. Certain prior year amounts have been reclassified to conform with the 1989 presentation.

Cash Equivalents—Highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

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 $1,500,000, $600,000 and $5,200,000 in 1989, 1988 and 1987, 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 the 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 1989, 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 taxes on dividends expected to be paid will be offset 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 50% stock distribution in 1989, the three-for-two stock split in 1987, the 50% stock distribution in 1986 and the 2% stock dividend in 1985.

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.

Pensions—The company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions", and No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" for all domestic plans effective January 1, 1987. Included in income in 1987 is a cumulative effect of a change in accounting of $5,673,000, net of taxes of $5,598,000 from the reversion of surplus assets in 1985 for pension plans covering non-bargaining employees of the company and its Huttig Sash & Door subsidiary.

In the first quarter of 1989, the company adopted SFAS No. 87 for all significant company sponsored foreign pension plans.

Acquisitions and Investments

In January 1989, Crane Ltd. acquired the assets of The Heatex Group, Ltd., a specialist in the repair and refurbishment of heat exchangers. The company acquired the Pacific CMP canned motor pump product line as an addition to Chempump in March 1989 and certain assets of the parts, resin and service business of Belco Water and Waste Treatment as an addition to Cochrane in August 1989.

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.

Each of these acquisitions was accounted by the purchase method, and the results of operations for each has 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 except per share data)	1988	1987
Net sales	$1,409,279	$1,316,185
Operating profit	96,634	78,664
Income from continuing operations	48,642	32,309*
Income per share from continuing operations	$ 1.45	$ .95*

**Income before cumulative effect of a change in accounting of $5,673 ($.16 per share).*

At December 31, 1989 the company held 488,300 shares of the common stock of Milton Roy Company. The company's investment of approximately $8,000,000 is carried at cost which approximates market, and represents approximately 8.4% of the outstanding shares of Milton Roy.

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 continuing operations. Net sales of Medusa through the date of the distribution in 1988 were $138.7 million and for the full 1987 year, net sales were $184.4 million.

Pensions

The company and its subsidiaries have pension plans which cover substantially all of their employees and non-employee directors. 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.

In 1987, the company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions", for all U.S. pension plans. The company adopted this standard for all significant foreign plans in 1989. Pension costs for foreign plans in 1988 and 1987 were determined under provisions of previous accounting standards.

	(U.S. and Foreign Plans)	(U.S. Plans)	
(In thousands)	1989	1988	1987
Service cost-benefits earned during the period	$ 7,041	$ 4,203	$ 4,902
Interest cost on projected benefit obligation	11,586	5,222	4,471
Actual return on plan assets	(24,292)	(6,065)	(120)
Net amortization and deferral	9,803	2,053	(3,565)
Pension expense	4,138	5,413	5,688
Pension costs for foreign plans prior to adopting SFAS 87	—	(298)	(692)
Pension expense for company sponsored pension plans	$ 4,138	$ 5,115	$ 4,996

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

	(U.S. and Foreign Plans)		(U.S. Plans)	
	1989		1988	
(In thousands)	Overfunded	Underfunded	Overfunded	Underfunded
Actuarial present value of benefit obligation:				
Vested	$108,931	$1,425	$35,873	$ 7,168
Nonvested	4,275	155	3,323	187
Accumulated benefit obligation	113,206	1,580	39,196	7,355
Effect of future pay increases	35,069	128	23,015	—
Projected benefit obligation	148,275	1,708	62,211	7,355
Assets and book reserves relating to such benefits:				
Funded assets at fair value	179,713	679	48,198	6,306
Book provisions, net	8,974	901	13,677	855
	188,687	1,580	61,875	7,161
Assets and book reserves greater (less) than projected benefit obligation	$ 40,412	$ (128)	$ (336)	$ (194)
Consisting of:				
Unrecognized net asset (liability) at date of adoption less amortization	$ 21,531	$ (446)	$ 959	$ 1,931
Unrecognized net gains (losses)	18,881	(420)	(1,295)	(2,125)
Adjustment required to recognize minimum liability	—	738	—	—
	$ 40,412	$ (128)	$ (336)	$ (194)

Financial Review

(continued)

The assumed discount rate, expected return on assets and rate of compensation level increases for final pay plans used to determine the pension expense and funded status information were 8.5%, 9.5% and 6.25%, respectively, for U.S. plans and 8.5% to 9%, 9% and 6.25% to 7.5%, respectively, for foreign plans.

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 $1,377,000 in 1989, $1,183,000 in 1988 and $1,127,000 in 1987.

At December 31, 1989 all plan assets are invested in listed stocks and bonds. These investments include common stock of the company which represents 3% of plan assets.

The cost of providing health care and life insurance benefits on a claims paid basis for certain retired employees was approximately $1,900,000, $2,000,000 and $1,800,000 in 1989, 1988 and 1987, respectively.

Miscellaneous—Net

For Years Ended December 31 (In thousands)	1989	1988	1987
Gain on disposal of capital assets-net	$2,949	$1,101	$ 636
Gain on sale of marketable securities	—	1,462	—
Foreign exchange gain (loss)	(18)	341	774
Minority interest	—	—	(402)
Other	453	32	175
	$3,384	$2,936	$1,183

Accrued Liabilities

At December 31 (In thousands)	1989	1988
Payroll and other employee related expenses	$22,139	$23,430
Insurance	14,287	12,000
Sales allowances and other related costs	11,491	10,628
Pensions	4,814	2,228
Interest	3,492	4,265
Taxes other than income	3,030	2,492
Environmental	2,600	—
Professional fees	2,596	2,401
Other	12,822	11,677
	$77,271	$69,121

Reserves and Other Liabilities

At December 31 (In thousands)	1989	1988
Insurance	$2,677	$ 2,176
Wage and other employee benefits	1,996	2,488
Environmental	1,850	4,115
Other	2,743	2,888
	$9,266	$11,667

Short-Term Financing

At year-end there were available with domestic and foreign banks $174,000,000 in short-term credit lines of which $153,000,000 were unused at that time.

Long-Term Financing

At December 31 (In thousands)	1989	1988
Crane Co.		
Senior debt:		
Revolving credit facility due 1994	$ 18,267	$ —
Subordinated debt:		
10½% Sinking fund debentures due 1994	—	22,833
7% Sinking fund debentures due 1993	8,452	8,733
7% Debentures due 1994	44,781	48,032
5% Convertible debentures due 1993 and 1994, convertible at $3.70 and $4.26	1,090	1,226
Other, principally capital lease obligations	1,780	3,721
Total Crane Co.	74,370	84,545
Subsidiaries:		
9½% Sinking fund debentures due 1999	11,250	12,500
Floating rate bank loans:		
Canada due 1991-1996	12,960	16,760
United States due 1991	1,500	5,900
Industrial Revenue Bonds	13,079	14,801
Other, principally capital lease obligations	5,943	8,627
Total subsidiaries	44,732	58,588
	$119,102	$143,133

The company had available $87,000,000 of unused long-term credit agreements at year-end. At December 31, 1989, the principal amounts of long-term debt repayments, net of amounts held in treasury, required for the next five years were $11,223,000 in 1990, $13,090,000 in 1991, $8,685,000 in 1992, $17,967,000 in 1993 and $59,453,000 in 1994. In 1987 the company converted its 8¾% 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 6½% Sinking Fund Debentures due 1992 not held in the company's treasury. At December 31, 1989 there was $5,495,000 outstanding.

In 1989 the company redeemed all of its outstanding 10½% Subordinated Sinking Fund Debentures due 1994 at the redemption price of 100% of the principal amount. The $22.8 million principal amount of the Debentures outstanding was refinanced through the company's revolving credit agreement at a fixed interest rate of 9.15% and is to be repaid on the same schedule as the old issue, $4,567,000 annually.

The company's $100 million three-year revolving credit agreement bears interest on the debt outstanding based on the lender's prime or certificate of deposit rate, or on the London Interbank market rate. The 1988 credit agreement contains various covenants, the most restrictive of these requires a minimum level of tangible net worth. At December 31, 1989, tangible net worth exceeded the required level by $89,089,000.

At December 31, 1989, the aggregate amount of subsidiary earnings available for dividends was $151,590,000.

Commitments and Contingencies

The company leases certain of its warehouse and manufacturing facilities, vehicles and equipment under capital and operating leases with various terms. Certain leases contain renewal or purchase options. 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, 1989:

(In thousands)	Capital Leases	Operating Leases	Minimum Sublease Income	Net
1990	$1,510	$13,394	$ 704	$14,200
1991	1,629	11,470	365	12,734
1992	1,596	8,979	141	10,434
1993	711	6,373	58	7,026
1994	513	5,548	3	6,058
Thereafter	3,001	14,741	3	17,739
Total minimum lease payments	8,960	$60,505	$1,274	$68,191
Interest	1,981			
Present value	$6,979*			

*Includes $1,064 due within one year

The weighted average interest rate for capital leases is 6.9%.

Rental expense for all operating leases was $20,368,000, $18,769,000, and $18,450,000 for 1989, 1988 and 1987, respectively.

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

(In thousands)	1989	1988
Buildings and improvements	$12,518	$14,264
Machinery and equipment	8,445	8,671
	20,963	22,935
Less accumulated depreciation	13,780	13,334
	$ 7,183	$ 9,601

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

At December 31, 1989, 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)	1989	1988	1987
Income before taxes:			
Domestic	$68,169	$60,353	$38,220
Foreign	23,410	21,137	20,321
	91,579	81,490	58,541
Statutory federal tax at 34% (34% in 1988 and 40% in 1987)	31,137	27,707	23,416
Increase (reduction) from:			
Foreign and local taxes	4,050	3,756	2,906
Goodwill	388	363	346
Non-taxable FSC income	(798)	(568)	(501)
Other	883	1,046	(330)
Provision for income taxes	$35,660	$32,304	$25,837
Percentage of income before taxes	38.9%	39.6%	44.1%

Financial Review
(continued)

The foregoing provision includes charges for foreign taxes of $9,380,000, $9,188,000 and $10,347,000 and state taxes of $4,482,000, $4,147,000 and $2,903,000 in 1989, 1988 and 1987, respectively.

The provision for income taxes is composed of the following:

(In thousands)	1989	1988	1987
Deferred income taxes	$ 3,796	$ 1,993	$ 3,709
Current income taxes	31,864	30,311	22,128
	$35,660	$32,304	$25,837

The components of deferred income tax expense are as follows:

(In thousands)	1989	1988	1987
Excess tax depreciation	$1,548	$1,690	$ 2,849
Reserves	1,075	(574)	1,474
Inventory capitalization	(498)	(862)	(1,184)
Other	1,671	1,739	570
	$3,796	$1,993	$ 3,709

Research and Development
Product development and engineering costs aggregated approximately $14,400,000, $12,000,000, and $10,700,000 in 1989, 1988 and 1987, respectively. In addition, approximately $4,100,000, $7,500,000 and $8,300,000 were received in 1989, 1988 and 1987, 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, 1989	964,276
50% stock distribution	480,592
Options granted	221,300
Options expired	(31,018)
Options exercised	(236,197)
Outstanding December 31, 1989	1,398,953

At December 31, 1989, options for 823,134 shares were exercisable and 442,729 shares were available for grant. Shares and per share prices (ranging from $6.56 to $17.59) have been adjusted for the 50 percent stock distribution in 1989. In 1988, options for 163,292 shares were exercised. The plan is not a compensatory plan which would require a charge to income.

The company's restricted stock award plan provides for awards of common stock to key officers and employees, subject to resale restrictions which are scheduled to lapse, in whole or in part, over a five year period or upon the achievement of certain performance objectives. The company awarded 461,500 shares in 1989 and 484,149 shares in 1988. During the year 31,905 restricted shares were cancelled and 586,256 are available for future awards at December 31, 1989. Shares have been adjusted for the 50 percent stock distribution in 1989. Compensation expense is determined based on the market value at the time of award and is normally amortized over the five year restriction period. The 1988 award provided for early vesting if the company's stock price increased 50% from its market value on the date of the original award. Due to the favorable performance of the company's stock price resulting in the lapsing of the restrictions on the 1988 award, the previously unvested portion of this non-cash expense was charged to income in 1989, reducing earnings by $4.1 million or $.08 per share.

Preferred Shares Purchase Rights
In July 1988, the company distributed one preferred share purchase right for each outstanding share of common stock. 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, 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 26 and 27. Segment description by products and industries served is given on pages 5 through 12.

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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 "Accounting Policies—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 & Touche, 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

J.P. Cronin

J.P. Cronin
Vice President—Finance and
Chief Financial Officer

Independent Auditors' Report

Deloitte & Touche

To the Shareholders of Crane Co.:

We have audited the accompanying consolidated balance sheets of Crane Co. and subsidiaries as of December 31, 1989 and 1988 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, 1989. The 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 that we plan and perform the audit to obtain reasonable 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Crane Co. and subsidiaries at December 31, 1989 and 1988 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

As discussed in the note, "Accounting Policies—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 & Touche

New York, New York
January 22, 1990

Management's Discussion and Analysis of Operations and Financial Condition

Results of Operations
Consolidated

(In millions)	1989	1988	1987
Sales	$1,455.6	$1,313.1	$1,099.6
Operating Profit	$ 105.0	$ 95.7	$ 75.1
Operating Margin	7.2%	7.3%	6.8%

1989 Sales increased 11% to $1.5 billion following a 19% increase in 1988. The sales gain in both years results from growth through acquisition, principally Palmer G. Lewis, as well as revenue growth from existing businesses.

1989 Operating Profit rose to $105 million, an increase of 10% over 1988, which was 27% above 1987. The improvement in both years was due to the increased volume overall and higher operating margins at Engineered Industrial Products, partially offset by a decline in margins within Wholesale Distribution. In addition, 1989 earnings were negatively impacted by a $4.1 million non-cash charge for the early vesting of the company's 1988 restricted stock award due to the favorable performance of Crane stock.

Income from continuing operations, net of taxes, amounted to $55.9 million in 1989 compared to $49.2 million in 1988 and $32.7 million in 1987. The return on sales improved to 3.8% in 1989 from 3.7% in 1988 and 3% in 1987, and the return on shareholders' equity exceeded 20%. Income per share from continuing operations increased 18% to $1.72 in 1989, from $1.46 in 1988 and $.97 in 1987.

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

(In millions)	1989	1988	1987
Sales	$772.3	$723.3	$649.8
Operating Profit	$ 91.8	$ 81.2	$ 55.4
Operating Margin	11.9%	11.2%	8.5%

In 1989, operating profit for the Engineered Industrial Products segment increased 13% on a 7% sales gain following a 47% increase in operating profit on an 11% sales improvement in 1988. Operating margin improved to 11.9% of sales compared to 11.2% in 1988 and 8.5% in 1987.

The company's domestic valve business operated at a loss in 1989 as it had in the prior year. Results in 1989 were negatively impacted by costs associated with discontinued products and closed facilities which totalled $4.7 million; however, with these costs behind it, this operation is expected to improve in 1990. Sales were down 6% following a 12% improvement in 1988. The foreign valve operations in the United Kingdom, Canada and Australia recorded gains in sales, operating profit and operating margins in 1989 compared with 1988. Crane Ltd. sold its steel foundry operation in 1989. This operation had been contributing marginally to sales and profits. Valve Systems, a value-added distributor of valves and actuators, capitalized on its expanded distribution network and recorded a 43% sales gain from 1988 as well as substantial improvement in operating profit and margins.

The pump businesses of Deming and Chempump recorded lower operating profits on slightly higher revenues in 1989 following a strong year in 1988. In March 1989, Chempump acquired the Pacific canned motor product line of Dresser Industries for $.4 million.

Sales and profits have increased in each of the last two years at Cochrane Environmental Systems, and in August 1989, the parts and service business of Belco Water and Waste Treatment was acquired as an addition to this unit for $.3 million.

The Canadian plumbing operation continued to be impacted by the slow housing construction market. Shipments improved from the prior year level but remained below the 1987 level, while operating profit and margins remained acceptable but have eroded somewhat due to strong price competition.

Hydro-Aire's sales increased 25% in 1989 with a corresponding increase in profits due to the expansion of the domestic commercial aircraft market where Hydro-Aire has a dominant proprietary position in its anti-skid brake system. This follows a strong increase in 1988 over 1987.

The defense related businesses of Crane Defense Systems, Unidynamics/Phoenix and Resistoflex/Defense suffered from the reduction of military spending in 1989. Shipments were down in 1989 continuing the decline which began in 1987. Each unit remained profitable in 1989 although in total, profits were significantly below the prior year's level. Each of these units is expected to improve in 1990, as more than half of 1990's sales are already in backlog.

Ferguson operated at break even in 1989 on a small improvement in sales. Ferguson Domestic operated at a loss which was offset by a profit in its European operations.

Kemlite's operating profits were down in 1989 due to weakness in its transportation market and costs associated with new products. Sales improved slightly as Kemlite increased its overall market share and expanded its building products distribution network from 65 to 110 locations. Profit margins remained acceptable although down from the prior two years.

CorTec continued the momentum generated in 1988 to record sales and profit gains. A mid-year strike prevented 1989 from being an even more outstanding year.

Resistoflex/Industrial recorded its second consecutive year of significantly improved earnings since relocating to its Marion, North Carolina facility in 1987. Cost reductions and a strong chemical and pharmaceutical market have been important factors in the improvement.

Polyflon recorded another year of steady growth in sales and made a strong profit contribution relative to the small size of this niche business.

National Vendors had another strong year in 1989, as shipments, profits and operating margins rose above the outstanding 1988 results. National Vendors continued to increase its market share in 1989 as it has in the past two years through the introduction of innovative vending machines and aggressive marketing.

Wholesale Distribution

(In millions)	1989	1988	1987
Sales	$706.6	$610.4	$467.4
Operating Profit	$ 30.7	$ 28.8	$ 32.4
Operating Margin	4.3%	4.7%	6.9%

Sales and operating profit for the Wholesale Distribution segment were 16% and 7% above 1988, respectively, due primarily to the inclusion of Palmer G. Lewis, acquired in June 1988, for a full year. Operating margins in 1989 and 1988 are down from the 1987 level due to Palmer G. Lewis. Operating margins at Palmer G. Lewis have increased steadily since its acquisition but remain below Huttig's historic operating margins.

Huttig Sash & Door was adversely affected by continued softness in the housing market, which reached a seven-year low in new starts. Despite the tough competitive conditions, Huttig's wholesale branches were able to maintain operating margins, due in part to their emphasis on the renovation, remodeling and repair market, which is now larger than its new housing business. The manufacturing operations experienced a difficult year due in part to a strike at the Rock Hill, South Carolina plant and start-up problems at the Fresno, California plant. Palmer G. Lewis' operating profit margins improved as it began its integration into Huttig.

Crane Supply Canada reported a small sales gain in 1989 and lower profits due to a poor housing market in Canada and the resultant effect of stiff price competition on operating margins. The 1989 results are compared to a strong year in 1988, when sales and profits rose 26% and 70% due to shipments of industrial products.

Financial

Net interest expense declined in 1989 due to a reduction in borrowing levels and increased investment levels, partially offset by higher interest rates on borrowings. In 1988, net interest expense was slightly below 1987 due to the conversion in March 1987 of the company's 8¾% debentures and interest income from the proceeds of a special $84.3 million dividend from Medusa, partially offset by fi[illegible] costs related to the Palmer G. Lewis acqu[illegible].

Miscellaneous income of $3.4 million included $2.9 million of gains on sales of capital assets, compared to $2.9 million in 1988 which consisted primarily of a $1.5 million gain on sale of marketable securities. In 1987 miscellaneous income totalled $1.2 million.

The company's effective tax rate was 38.9% in 1989 compared with 39.6% in 1988 and 44.1% in 1987, when the federal statutory rate was 40%.

Liquidity and Capital Resources

In 1989, the company generated $100.9 million of cash from operating activities, compared with $137.4 million in 1988, which included a special dividend of $84.3 million from Medusa Corporation immediately prior to its distribution to Crane shareholders, and $73.2 million in 1987.

Several small acquisitions were made during the year to expand units of the Engineered Industrial Products segment, and an 8.4% position in Milton Roy was acquired for approximately $8 million. In 1988, the company invested $48 million in new businesses, primarily in the Wholesale Distribution segment. The company invested $33.2 million in 1989 to modernize and improve its plant and equipment, compared with $17.9 million in 1988 and $16.2 million in 1987.

The company's strong financial condition is evidenced by its improved net debt to equity position of 53% in 1989, compared with 64% and 73% in 1988 and 1987, respectively. Working capital amounted to $214 million in 1989 and the current ratio was 2.2:1 at the end of 1989 and 1988. During the year, total debt outstanding was reduced by $55 million through cash provided from operating activities and a reduction in cash. In 1989, the outstanding 10½% Subordinated Sinking Fund Debentures were redeemed and refinanced through the company's revolving credit agreement at a lower interest rate, using the same repayment schedule as the old issue. Unused credit lines of $153 million and $87 million of available financing under long-term credit agreements provide sufficient financial flexibility.

In 1989, the company made a 50% stock distribution to shareholders, increased the quarterly cash dividend 12.5% to 18¾ cents per share and paid cash dividends of $22.7 million. During the year, the company purchased for $32.3 million the equivalent of 1.8 million common shares at an average price of approximately $18.00 per share, after adjusting for the 50% stock distribution.

In February 1990, the company agreed to acquire Lear Romec Corporation, a wholly-owned subsidiary of BFM Aerospace Corporation, for approximately $40 million. Lear Romec manufactures pumps for the aerospace industry and in the fiscal year ended October 31, 1989, had sales of $30.6 million and income before taxes of $6.4 million. The acquisition will be financed through the company's revolving credit agreement.

Crane Co. and Subsidiaries

Analysis by Segment

(In thousands)	1989 Amount	%	1988 Amount	%	1987 Amount	%
Net Sales:						
Industry Segments:						
Engineered Industrial Products	$ 772,258	52	$ 723,253	54	$ 649,815	58
Wholesale Distribution	706,616	48	610,418	46	467,352	42
	1,478,874	100	1,333,671	100	1,117,167	100
Intersegment Sales	(23,285)		(20,535)		(17,571)	
	$1,455,589		$1,313,136		$1,099,596	
Geographic Region:						
United States	$1,093,416	74	$ 975,740	73	$ 811,380	73
Canada	233,788	16	216,764	16	183,216	16
Other International	151,844	10	138,696	11	116,724	11
	1,479,048	100	1,331,209	100	1,111,320	100
Interregional Sales	(23,459)		(18,073)		(11,724)	
	$1,455,589		$1,313,136		$1,099,596	
Operating Profit:						
Industry Segments:						
Engineered Industrial Products	$ 91,778	75	$ 81,205	74	$ 55,396	63
Wholesale Distribution	30,666	25	28,770	26	32,435	37
	122,444	100	109,975	100	87,831	100
Corporate	(17,399)		(14,309)		(12,701)	
	$ 105,045		$ 95,666		$ 75,130	
Geographic Region:						
United States	$ 92,572	76	$ 82,256	75	$ 60,954	69
Canada	18,481	15	18,757	17	17,654	20
Other International	11,391	9	8,962	8	9,223	11
	122,444	100	109,975	100	87,831	100
Corporate	(17,399)		(14,309)		(12,701)	
	$ 105,045		$ 95,666		$ 75,130	
Assets:						
Industry Segments:						
Engineered Industrial Products	$ 387,719	63	$ 395,080	63	$ 386,710	72
Wholesale Distribution	227,013	37	234,034	37	148,505	28
	614,732	100	629,114	100	535,215	100
Investments Held for Disposal	—		—		71,258	
Corporate	39,825		52,626		28,294	
	$ 654,557		$ 681,740		$ 634,767	
Geographic Region:						
United States	$ 442,547	72	$ 464,941	74	$ 384,030	72
Canada	96,245	16	86,670	14	76,233	14
Other International	75,940	12	77,503	12	74,952	14
	614,732	100	629,114	100	535,215	100
Investments Held for Disposal	—		—		71,258	
Corporate	39,825		52,626		28,294	
	$ 654,557		$ 681,740		$ 634,767	

Crane Co. and Subsidiaries

Analysis by Segment

(continued)

	Capital Expenditures			Depreciation		
	1989	1988	1987	1989	1988	1987
Industry Segments:						
Engineered Industrial Products	$18,693	$11,825	$12,938	$16,730	$15,913	$15,531
Wholesale Distribution	4,105	5,767	3,312	4,317	3,614	2,523
Corporate	10,391	273	—	267	217	213
	$33,189	$17,865	$16,250	$21,314	$19,744	$18,267
Geographic Region:						
United States	$26,420	$11,479	$10,485	$15,592	$14,051	$13,006
Canada	3,525	3,007	3,688	2,477	2,163	1,727
Other International	3,244	3,379	2,077	3,245	3,530	3,534
	$33,189	$17,865	$16,250	$21,314	$19,744	$18,267

Five Year Summary of Selected Financial Data

Years Ended December 31 (In thousands except share data)	1989	1988	1987	1986	1985
Net Sales	$1,455,589	$1,313,136	$1,099,596	$1,043,718	$960,702
Depreciation	21,314	19,744	18,267	16,391	18,132
Operating Profit	105,045	95,666	75,130	75,044	38,394*
Interest Expense	19,177	18,842	19,100	26,650	28,176
Income before Taxes	91,579	81,490	58,541	55,305	20,945
Income Taxes	(35,660)	(32,304)	(25,837)	(26,520)	(6,360)
Income—Continuing Operations	$ 55,919	$ 49,186	$ 32,704	$ 28,785	$ 14,585
Income Per Common Share— Continuing Operations:					
Primary	$1.72	$1.46	$.97	$.94	$.48
Fully Diluted	1.69	1.45	.94	.87	.47
Dividends Declared Per Common Share:					
Cash	$.7083	$.6167	$.5833	$.5200	$.4733
Stock	—	—	—	—	2%
Assets	$ 654,557	$ 681,710	$ 634,707	$ 612,780	$630,610
Long-Term Debt	$ 119,102	$ 143,133	$ 151,096	$ 225,931	$270,501

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

See Financial Review

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Crane Co. and Subsidiaries

Quarterly Results for the Year

(Unaudited)

Quarter *(In thousands except per share data)*	First	Second	Third	Fourth	Year
1989					
Net Sales	$348,149	$383,938	$376,330	$347,172	$1,455,589
Gross Profit	69,529	79,233	76,215	76,255	301,232
Net Income	10,695	16,144	15,487	13,593	55,919
Primary Net Income Per Share	$ .33	$ .49	$ .48	$ .42	$ 1.72
1988					
Net Sales—Continuing Operations	$275,237	$315,772	$378,258	$343,869	$1,313,136
Gross Profit	57,432	65,374	77,055	72,301	272,162
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	$ .28	$ .40	$ .41	$ .37	$ 1.46
Segment Distributed to Shareholders	(.03)	.22	.20	—	.39
Net Income	$ .25	$ .62	$ .61	$ .37	$ 1.85

Market and Dividend Information–Common Shares

	New York Stock Exchange Composite Price Per Share*				Dividends Per Share	
	1989		1988		1989	1988
Quarter	High	Low	High	Low		
1st	$17½	$15	$16⅞	$10½	$.1666	$.1500
2nd	19	16⅞	17⅞	14⅞	.1667	.1500
3rd	23¼	17⅝	16⅞	14⅞	.1875	.1500
4th	25	20	16¾	14⅜	.1875	.1667
					$.7083	$.6167

At December 31, 1989 there were approximately 8,200 holders of Crane Co. common stock.

** Adjusted for 50% stock distribution in 1989 and distribution of Medusa Corporation to shareholders in 1988.*

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Directors

E. Thayer Bigelow, Jr.[2,3]
President, Home Box Office, Inc., Communications Services

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

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

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

Dorsey R. Gardner
President, Kelso Management Co., Investment Management

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

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

Jeremiah P. Cronin
Vice President—Finance & Chief Financial Officer

Thomas C. Fish
Vice President, Corporate Development

Paul R. Hundt
Vice President, Secretary & General Counsel

Robert J. Muller, Jr.
Executive Vice President

Anthony D. Pantaleoni
Vice President, Environment, Health & Safety

Richard B. Phillips
Vice President, Human Resources

Michael L. Raithel
Controller

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

Form 10-K
Copies of Form 10-K for 1989 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 of shareholders will be held at 10:00 a.m. on Monday, May 7, 1990 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 Stock Exchange

Stock Transfer Agent and Registrar of Stock
First Chicago Trust Company of New York
30 West Broadway
New York, NY 10007

Bond Trustees and Disbursing Agents
Citibank, N.A.
New York, NY 10015
Bank of America National Trust and Savings Association
Los Angeles, CA 90051

Auditors
Deloitte & Touche
One World Trade Center
New York, NY 10048

Equal Employment Opportunity Policy
Crane 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, New York 10017