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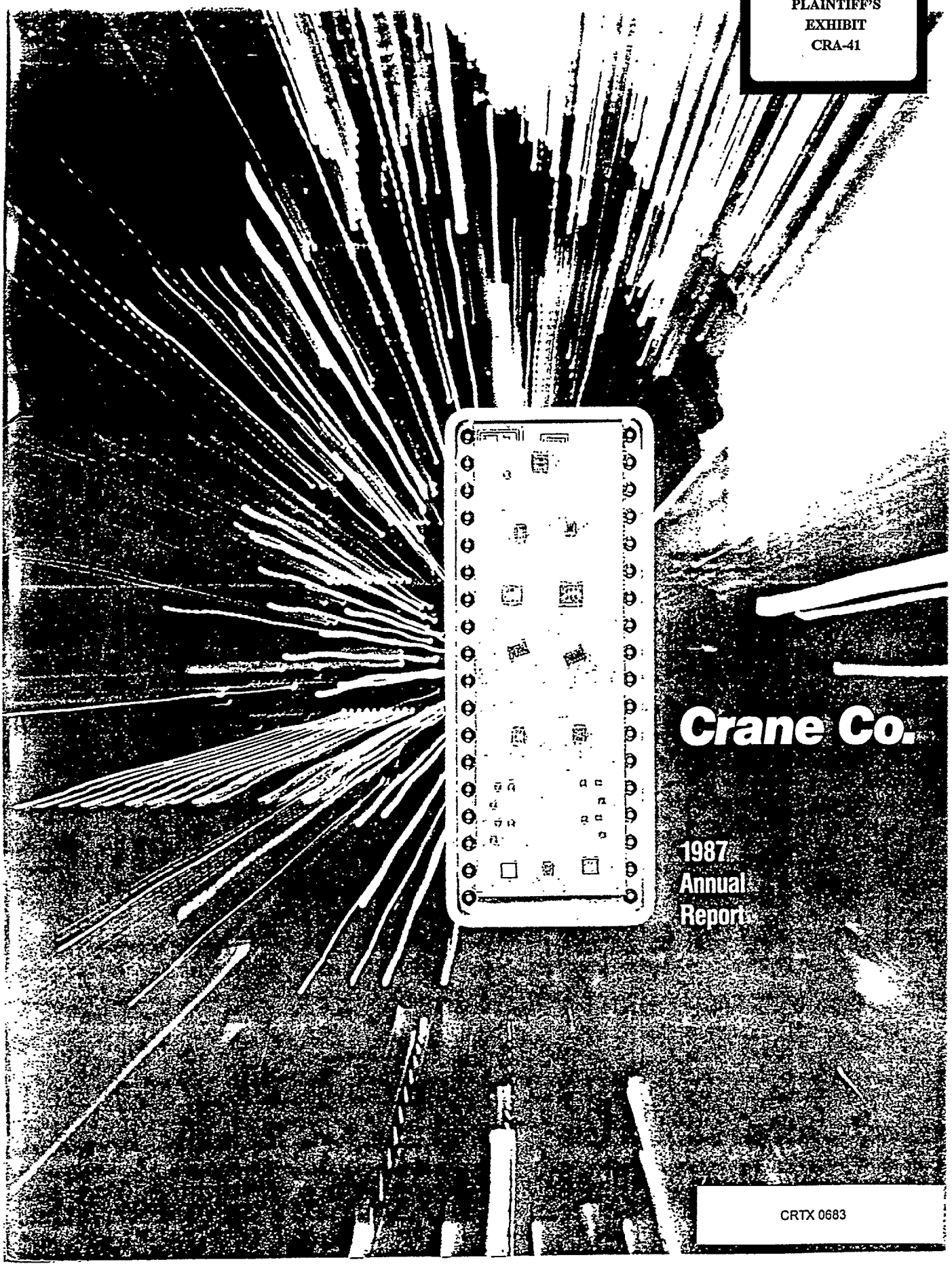

Crane Co.

1987 Annual Report

CRTX 0683

Crane Co.

Crane is a diversified manufacturer and distributor of engineered products for aerospace, construction, defense and other industries.

Cover

Pictured on the cover is a Hydro-Aire micro-circuit used in aircraft braking control systems, shown two and a half times actual size.

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Financial Highlights

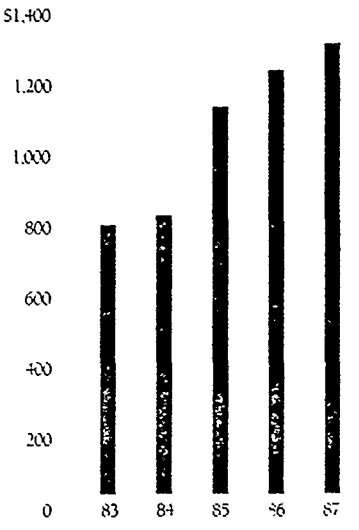
Crane Co. and Subsidiaries

(In thousands)	1987	1986	1985	1984	1983
Net Sales	$1,283,970	$1,204,236	$1,098,848	$792,212	$771,679
Operating Profit	104,328	91,352	44,364[c]	48,728	23,792
Income before Taxes	86,990	72,225	26,230	41,904	46,365
Income Taxes	(36,706)	(33,847)	(8,633)	(10,939)	(19,988)
Income—Continuing Operations	$ 50,284[b]	$ 38,378	$ 17,597	$ 30,965	$ 26,377[d]
Per Share (Fully Diluted):[a]					
Income—Continuing Operations	$ 2.15[b]	$ 1.69	$ .84	$ 1.36	$ 1.08[d]
Cash Dividends Declared	.87½	.78	.71	.70	.68
Average Fully Diluted Shares Outstanding	23,872	24,867	21,931	22,811	24,503

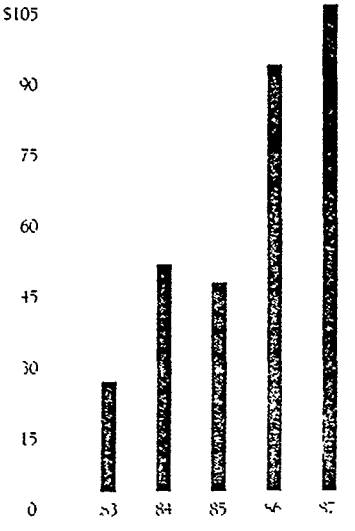
[a] Adjusted for three-for-two stock split in 1987, 50% stock distribution in 1986 and 2% stock dividends in prior years.
[b] Income before cumulative effect of a change in accounting of $9,002 ($.38 per share) in 1987.
[c] Includes charge for non-recurring restructuring costs in the amount of $25,428 in 1985
[d] Excludes loss on discontinued operations of $135,437 ($5.53 per share) in 1983

Continuing Operations

Sales (In millions)



Operating Profit (In millions)



1985 is before $25.4 of non-recurring restructuring costs

CRTX 0685



(Seated from left)
Robert S. Evans, Chairman, Chief Executive Officer and President
R. Kenneth Whitley, Vice President—Finance and Chief Financial Officer
Richard B. Phillips, Vice President, Human Resources
(Standing from left)
Paul R. Hundt, Vice President, Secretary and General Counsel
Eric G. Dalrymple, Treasurer
Michael L. Raithel, Controller

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Letter to Shareholders

I am pleased to report that 1987 was another successful year for Crane Co.

Fully diluted earnings per share increased 27% from $1.69 to $2.15, excluding the change in accounting for pensions. On the same basis, cash flow per share was $3.78, an increase from $3.18 in 1986. Our return on equity was again 23%, exceeding our goal of 20%. This excellent return was accomplished in spite of an increase in equity of $83 million and a $76 million reduction in debt. Corporate expense remained below 1% of sales, another important goal reflecting our decentralized operating environment. Sales and operating profit increased by 6.6% and 14.2%, respectively, in spite of the sale of the U.S. Crane Supply Division in February, 1987. This transaction represented a reduction in sales on a comparable basis of approximately $40 million. The effect on operating profit was insignificant.

As previously mentioned, debt was reduced by $76 million primarily as a result of the conversion of the $75 million of debentures in March. Equity increased $83 million over 1986 in spite of the repurchase of the equivalent of 1.7 million shares of stock, after adjusting for the 3-for-2 stock split, at an average price of $24.39. Crane has long had a policy of repurchasing shares when it is an attractive investment opportunity. We plan to continue this policy.

In April our dividend was increased by 12.5% to $.90. At the same time, a 3-for-2 stock split was declared.

During 1987, we looked at a large number of possible acquisitions in businesses which would fit with our existing businesses and offer either improved market share, vertical integration or attractive technology. The only acquisition which was consummated in 1987 was the purchase of a deaerator product line by Cochrane, our water treatment division. All acquisitions must make financial sense and are judged against the opportunity to purchase our own shares.

In September we also completed the buy-out of the minority interests in our subsidiaries, Medusa Corporation and Huttig Sash & Door Company. We believe that both Medusa and Huttig are excellent businesses. The elimination of the minority interests reduces cost and increases our flexibility.

Crane has changed a great deal over the last few years. We have sold or spun off less attractive businesses, made acquisitions with strength in niche markets, closed or moved a number of plants, and expanded existing businesses to increase profits. To more accurately report the changing nature of the markets Crane serves and the industries in which we operate, and to make it easier for shareholders and the investment community to understand Crane, we have realigned our reporting into three business segments: Engineered Industrial Products, Wholesale Distribution and Cement and Aggregates.

In the Engineered Industrial Products segment, many of our businesses had outstanding years. All the Canadian operations had improved results with a particularly strong performance by the Plumbing Division, which achieved record sales and profits due to increased market share and a strong housing market in Canada. Crane Ltd., our United Kingdom subsidiary, had an excellent year due to strong domestic demand for valves and fittings and improved performance in the service business. Crane Australia had an outstanding year due to the failure of our competition and our ability to service the valve market. Hydro-Aire had another excellent year and enters 1988 with a higher backlog than last year in spite of cuts in defense spending. National Vendors continued the turnaround mentioned last year. New products, increased service, and aggressive marketing resulted in increased market share in automatic vending. NRI, GmbH, a German manufacturer of currency systems, had much improved results due to strong orders for their new electronic products

CRTX 0687

Not all the results were so satisfying. The United States valve business still suffered from the plant closings and changes implemented in 1986, an unbalanced excessive inventory, and a weak though improving market. Both Resistoflex/Defense, a titanium fittings and pressure hose business, and Resistoflex/Industrial, a plastic-lined (TFE) pipe and fittings business, relocated in 1987. With these substantial costs behind us, 1988 should show a return to profitability at both locations. Delays in contract awards and a shipyard bankruptcy adversely affected Crane Midwest. High costs and several expensive development contracts lowered profits at Unidynamics/Phoenix, but reduced costs and a much improved backlog indicate improvement in 1988.

Ferguson Machine had reduced sales and operated at a loss due to lower capital spending by the automotive industry. Emphasis on new markets, improved capital spending and high capacity utilization should show improved profits in 1988.

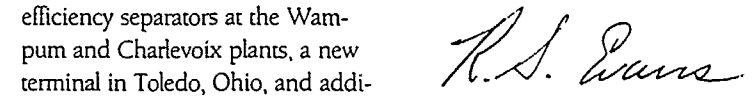
The Wholesale Distribution segment consists of Huttig Sash & Door Company and Crane Supply, Canada. Huttig had another record year in sales and profits. Improved market penetration and a full year of operations with the five branches in the Northeast were the main developments. In February, 1988, Huttig acquired wholesale operations in the Los Angeles and San Francisco areas. This acquisition brings Huttig to the West Coast and offers excellent growth opportunities. Crane Supply, Canada had an excellent year in 1987 with sales up 10% and profits up by more than 50% over 1986.

The Cement and Aggregates segment is the Medusa Corporation. In 1987 Medusa achieved record operating profits. Several key capital expenditures including high-efficiency separators at the Wampum and Charlevoix plants, a new terminal in Toledo, Ohio, and additional shipping capacity, combined with strong market demand to significantly improve Cement's results. Aggregates also had improved results because of increased demand and internal expansion. Medusa is well positioned for the future with excellent plants in markets that have minimal exposure to imports.

One of the disappointments of 1987 was the October stock market crash. For the first time in the last four years Crane's year-to-year total return to shareholders was even. The share price finished down 4% for the year, however the dividend made up for this decline.

I am glad to say that Crane enters 1988 in the strongest financial and operating condition in its history. We expect a strong 1988 and look forward to continued growth, both internally and through acquisition.

Finally, I would like to thank our customers and employees for their support during the past year and I look forward to a continued positive, beneficial relationship in the future.



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

February 26, 1988

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Engineered Industrial Products

Aloyco stainless steel valves in production at the Rogers, Arkansas plant

The United States *Valve Division* showed some progress in 1987.

A major product program in 1987 was the redesign of the Aloyco Stainless Steel Valve line. Many manufacturing efficiencies and improvements, along with reduced offshore competition, enabled Crane to maintain its market leadership in this specialty valve area.

To improve our customer service and increase sales, spare parts for valves are now handled through the *Valve Services Group*. This includes the supply of parts and valves to the nuclear power industry, provided by our acquisition of Aloyco. The combination of valve servicing with a spare parts operation provides valve users a one-stop service to meet all their needs.

Engineered Industrial Products
(continued)



A Chempump installed in a test facility designed to study how complex engineered systems behave under normal and abnormal conditions

The Chempump Division is the leading manufacturer of canned motor pumps. It also manufactures magnetic drive pumps and engineered control valves. Extensive operational changes were made during the year to improve customer service and deliveries and to develop new products.

Deming manufactures pumps for general industrial and municipal use. Programs put in place in 1987 strengthened customer service and the Deming distribution network, resulting in improved operating performance. The introduction of a hazardous duty turbine pump and a new motor mount centrifugal line have opened several new niche markets providing additional opportunities for growth.

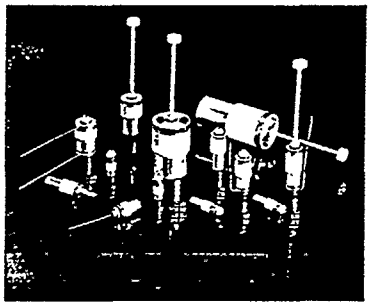
CRTX 0690

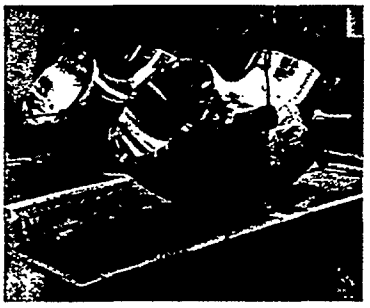
Cochrane Environmental Systems designs, engineers and markets water and wastewater treatment products for almost every major industry. Better performance and customer service were achieved through engineering and manufacturing improvements and fast response to market inquiries. During the year Cochrane acquired Chicago Heater, a major manufacturer of deaerators, making Cochrane the leader in the deaerator market.

Ferguson Machine Company designs and produces precision indexing devices, parts handling systems, automated special purpose machines and precision rotary positioning equipment. Its PickOmatic Systems is a leader in cam-actuated parts handling devices. Due to slow demand for industrial automation products in the automotive industry, efforts were directed toward increasing orders from the packaging, container and ordnance industries.

While the military continues to be the main consumer of *Polyflon* components and materials, the medical electronics area is emerging as an exciting growth opportunity. Designs of nuclear magnetic resonance (NMR) imagers for diagnosing certain diseases have utilized Polyflon's substrates to enhance and improve their performance. Polyflon looks for excellent growth in this market.





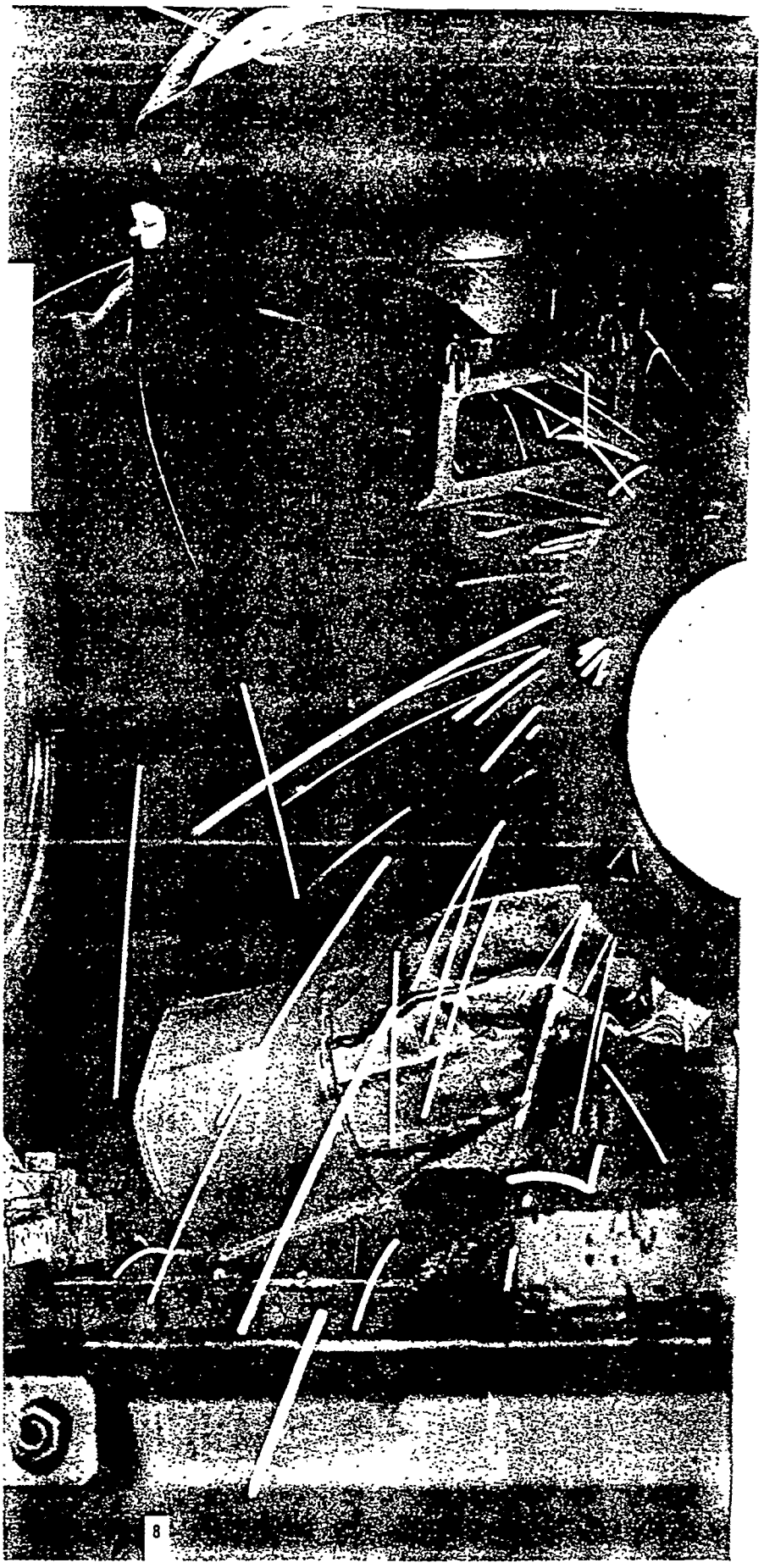


An automated special purpose machine, designed and produced by Ferguson, machining a valve used in petroleum production (top)
A variety of non-magnetic, high voltage RF variable capacitors manufactured by Polyflon (middle)
Special INCONEL alloy pipe fittings manufactured by Crane Midwest (bottom)

The consolidation of *Unidynamics/Midwest* and *Crane Midwest Fittings* took place in 1987 with Unidynamics/Midwest moving to the Midwest Fittings, St. Louis facility. The two groups will form *Crane Midwest*, manufacturing such equipment as cargo and personnel elevators, cranes, hoists, boat davits, special-duty winches, and special welding fittings used in power plants, pipeline projects and Navy nuclear propulsion systems. Package conveyors and ammunition handling equipment for DDG-51 class destroyers were successfully introduced during the year.

Unidynamics/St. Louis designs and manufactures launching, loading, handling, storage and control systems for the Department of Defense. These systems are used in many areas of military operations including: launchers for strategic weapons; winches and equipment for anti-submarine warfare systems and mine warfare systems; and special handling and storage equipment for the Navy, Coast Guard and Air Force. A current program is the Handling and Stowage System, a major sub-system of the U.S. Navy's Tactical Towed Array Sonar (TACTAS), an acoustic sensor system used to provide detection and classification of submarine threats at tactical ship speeds. Other programs include the

Engineered Industrial Products
(continued)



Welding operation at the new Resistoflex/Industrial facility in Marion, North Carolina

Strikedown Lift System, the U.S. Navy's Mine Neutralization System, logistic support for the Armored Box Launching System (ABL) and continuation of the ASROC Weapon Handling System (AWHS) improvement program.

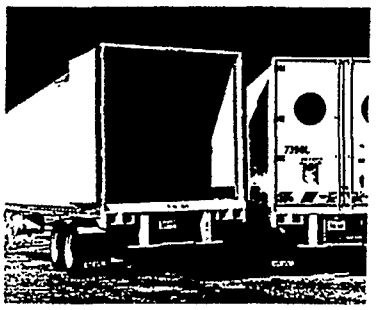
Kemlite added new products to its Glasbord product line. A new, lighter weight Glasbord liner was introduced to the refrigerated transportation market. As a result of continuing technological advancements, the panel weight was reduced by 15 percent and had excellent reception from the transportation market, where weight savings mean higher payloads. In the building market, Kemlite's Class I fire-rated wall and ceiling system has produced good customer demand and provides

Kemlite with a significant base for further expansion in the building products area.

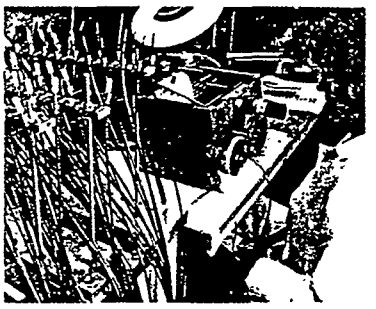
Cor Tec's CladTuff fiberglass-reinforced panels are recognized as the standard in the truck trailer market. During 1987, manufacturing was consolidated into a single facility to improve efficiency.

During 1987, *Resistoflex/ Industrial* moved to Marion, North Carolina. This new facility, with improved production capability and reduced costs, provides the ability to achieve higher sales on a very competitive basis. In addition to a line of specialty products, Resistoflex manufactures polypropylene-lined pipes and fittings. As government regulations for piping systems, primarily in the chemical processing industry, become increasingly stringent and more strongly enforced, new product concepts such as double wall containment fittings will add to our leadership stance.

National Vendors offers a full line of electronic machines in the snack, hot and cold drink, food and cigarette categories, as well as currency and coin changers. Its product offerings were enhanced in 1987 through the addition of an expanded-capacity version of the Refreshtron multi-purpose vending machine and the Shoppertron food merchandiser. The Shoppertron, affording innovative food vending alternatives, will appeal to a large portion of the vended food market. The Cointron line of coin validators and changers continued to gain market acceptance in both the vending and bottling markets.







Kemlite's lightweight Glasbord-L liner installed in new refrigerated trailer (top)
A full line of electronic vending machines, including the new Shoppertron food merchandiser, from National Vendors (middle)
Fiber optic fibers being polished before assembly to a laser initiated detonator at Unidynamics/Phoenix (bottom)

National Rejectors, Inc., GmbH, located in West Germany, disposed of its unprofitable printed circuit business and achieved a significant turnaround with its line of mechanical and electronic coin validators and changers for the European market.

Hydro-Aire serves the commercial, commuter, military and general aviation aircraft markets with an extensive line of custom engineered products. These products include aircraft braking control systems, fuel boost pumps and hydraulic valve equipment.

In 1987 Hydro-Aire won a major contract to supply the anti-skid control and brake temperature monitoring systems for the new McDonnell Douglas C-17 military transport, the next generation cargo transport.

Initial deliveries of the anti-skid control system for the new Boeing 747-400 airplane were made during the year.

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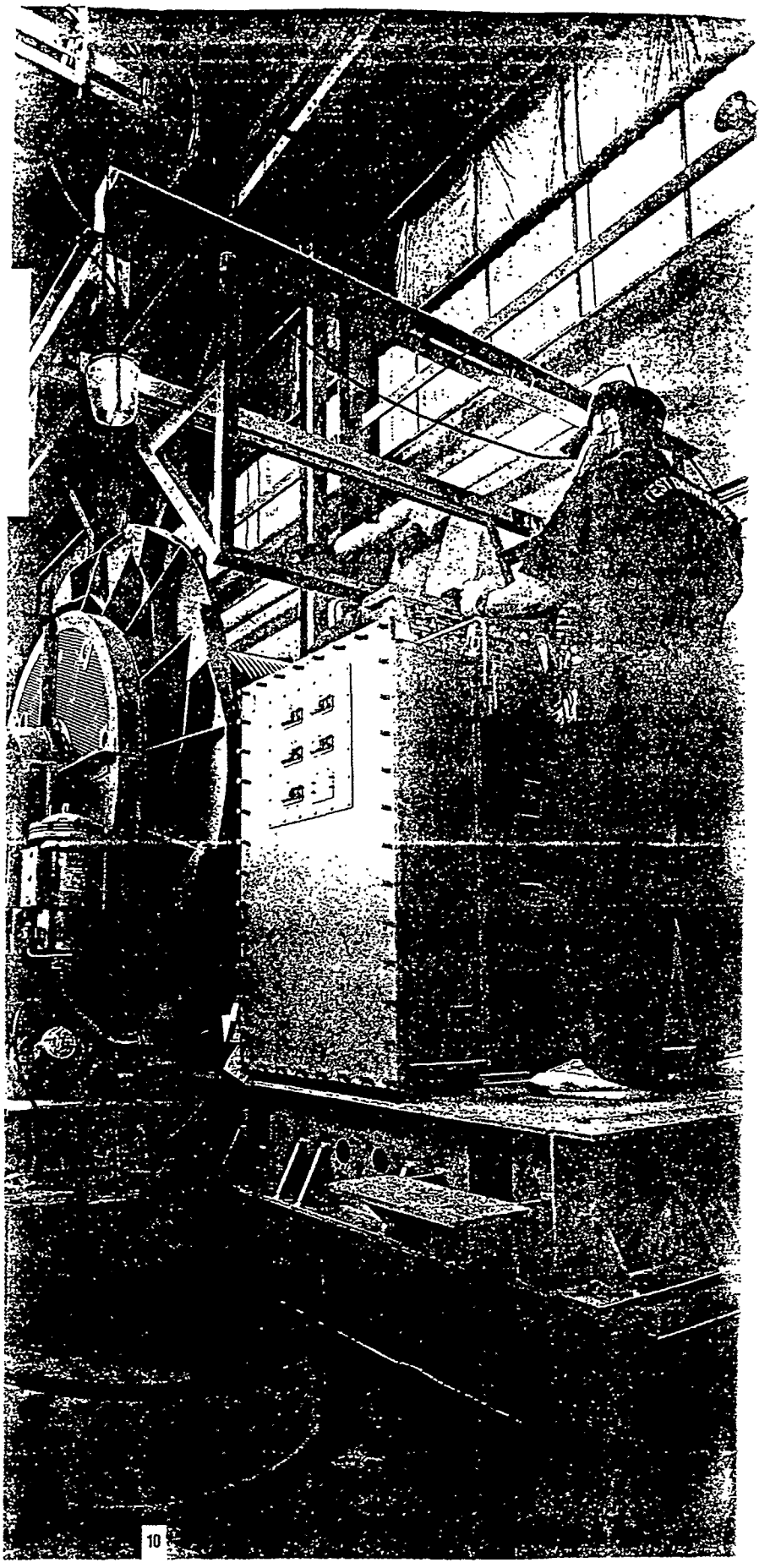
Engineered Industrial Products
(continued)



Tactical Towed Array Sonar (TACTAS) Handling and Stowage System being tested at Unidynamics/St. Louis plant

Hydro-Aire's research and development continues to emphasize fiber optics and advanced digital electronics.

Unidynamics Phoenix designs and manufactures precision ordnance and related electromechanical and electronic devices for the Departments of Energy and Defense. Major changes were made to improve the competitive position of the business, maintain a strong position in Department of Energy products and insure a buildup in production contracts backlog. Work is progressing on the Trident D-5 program and the Small Intercontinental Ballistic Missile (SICBM).

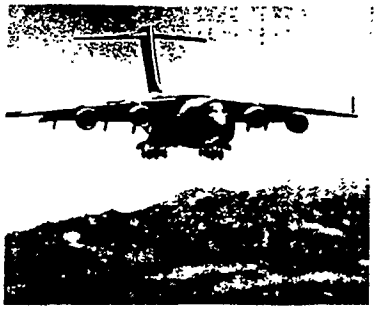
CRTX 0694

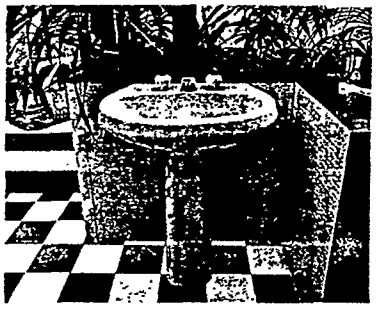
Resistoflex/Defense is a leading manufacturer of separable, high performance fittings used on military aircraft and aircraft engines. The move to Jacksonville, Florida, was completed early in 1987 but was plagued by start-up problems. Full operation is expected in 1988.

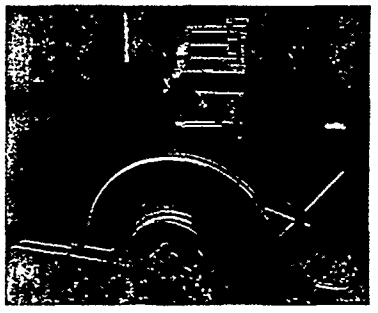
Canada

Crane Canada, Inc. is the largest of Crane's operations outside the United States. The *Plumbing Division* manufactures a diversified line of plumbing products and has a significant and growing share of the Canadian market. The introduction of luxury fixtures and fittings for the upscale buyer is important in Canada's marketing strategy to maintain high visibility with the buying public. The new "Liteline" acrylic bathtubs exceeded all expectations in 1987, and a new line of decorator brass is expected to gain wide acceptance in the luxury market.

The *Valve Division* manufactures and markets a wide variety of valves serving almost all the major markets. 1987 saw an increase in sales of waterworks products and bronze valves, and a successful introduction of small steel and stainless steel ball valves.







Hydro-Aire will provide the brake control system for the new McDonnell Douglas C-17 military transport (top) **A pedestal lavatory from the "Phoenix" collection, a new line of bathroom fixtures from Crane Canada** (middle) **Computerized dynamic balancing equipment in operation at the Crane Ltd., Ipswich service center** (bottom)

International

During the year *Crane Limited*, United Kingdom, was restructured into three operating units. *Crane Fluid Systems* will concentrate on valves, pumps and pipe fittings for heating and ventilating applications. *Crane Industrial* will focus on specialty industrial markets for fluid control equipment, pumps and maintenance services. *Blackett Hutton*, a manufacturer of high integrity steel castings, remains unchanged. In 1987 Crane Limited targeted specialty industrial markets requiring high standards of manufacture and quality control. This approach has allowed Crane Limited to become the major supplier of forged bellows seal valves for a new nuclear reprocessing plant being built by British Nuclear Fuels.

Crane Australia Pty., Limited manufactures and supplies valves to Australia, New Zealand and related markets. Forged steel and cast steel valves had a very strong year and the reconditioning and servicing of valves continued its outstanding performance.

Wholesale Distribution



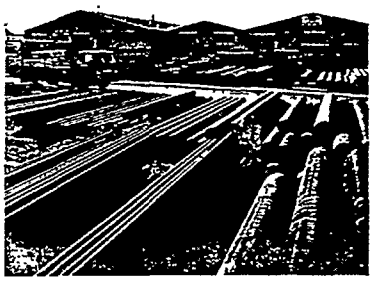
CRTX 0696

Huttig Sash & Door is a major distributor of millwork and related products with national distribution through 43 distribution centers. Huttig also operates a sawmill and millwork component factory in Montana. The new wood window manufacturing facility in Rock Hill, South Carolina began operation in 1987 to manufacture low-cost wood windows to meet markets that require other than a branded premium product. Huttig markets high performance, low maintenance windows and doors, as well as wood molding and related building materials to dealers and residential and commercial contractors.

1987 was a year in which the acquisitions in the Northeast were successfully integrated into the Huttig organization. In February 1988, Huttig purchased two Pozzi-Fenati Millwork Products distribution centers located in the Los Angeles and San Francisco Bay areas. This acquisition provides Huttig with substantial penetration into the important West Coast market.





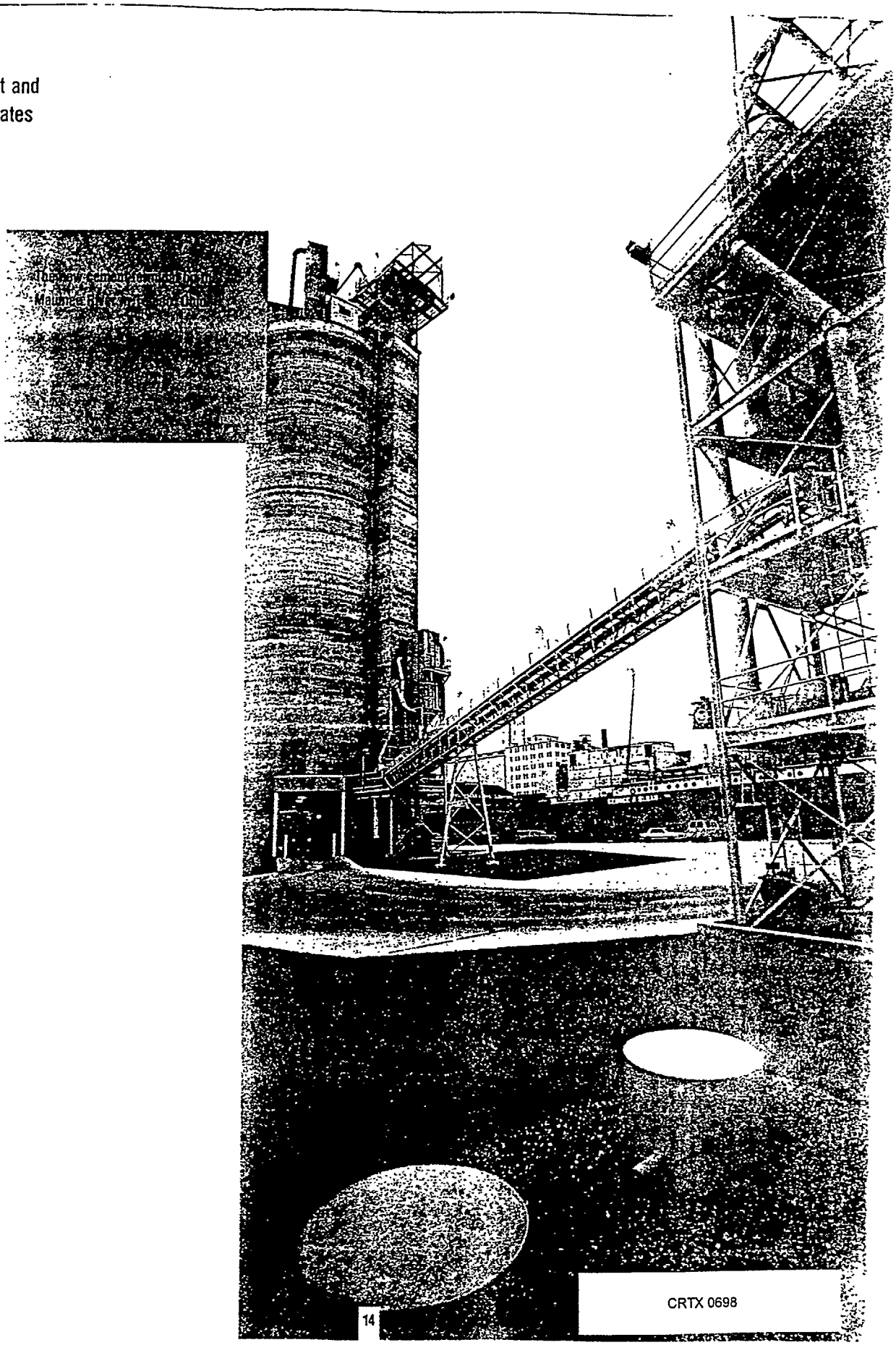


Loading a truck for delivery at the Fredericksburg, Virginia branch (top)
A full line of windows, doors and millwork on display at a Huttig showroom (middle)
Crane Supply of Canada branch in Calgary, Alberta (bottom)

In 1987, at a time when housing starts were declining, Huttig successfully increased its penetration in the replacement, remodeling and light commercial markets.

The *Crane Supply Division* serves industrial and construction markets with distribution outlets throughout Canada. Its branches handle valves, plumbing, pipe and tubing produced by Crane Canada and other manufacturers. The distribution business was dominated by strong demand for plumbing products, particularly in Ontario, Québec and the Atlantic Region. Two new distribution centers, one in Trois Rivières, Québec and another in Oshawa, Ontario were opened in 1987.

Cement and
Aggregates



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Medusa Corporation supplies portland and masonry cements and aggregates to the construction industry, high quality limestone products to industrial users and highway construction services to government agencies. The company serves the eastern half of the United States, with its principal markets in the Midwest and Southeast regions.

Although overall construction spending was down slightly, Medusa's markets continued to improve in 1987. Gains in non-building and residential construction more than offset declines in non-residential construction.

Medusa completed several capital projects during the year. A new terminal on the Maumee River in Toledo, Ohio was completed to serve the northwestern Ohio, northeastern Indiana and southeastern Michigan markets. An oil tanker was converted to a self-unloading, cement-carrying barge with a capacity of 8,500 tons and will transport cement from the Charlevoix, Michigan plant to Medusa's network of terminals on the Great Lakes. These projects will allow Medusa to fully utilize its 1.37-million-ton cement plant in Charlevoix. State-of-the-art, high-efficiency separators were installed on finish mills at the Charlevoix and Wampum, Pennsylvania plants, lowering consumption of electrical power and improving product quality. The Thomasville, Pennsylvania packing capacity and warehouse space were expanded to better serve the highly seasonal lawn and garden market.





The Challenger and new self-unloading cement carrying barge, Conquest, at the Charlevoix, Michigan plant dock (top)
The complex control room of the highly automated Charlevoix, Michigan cement plant (bottom)

Consolidated Statements of Income

For Years Ended December 31 (In thousands)	1987	1986	1985
Net Sales	$1,283,970	$1,204,236	$1,098,848
Operating Costs and Expenses:			
Cost of sales	993,234	932,014	855,353
Selling, general and administrative	158,118	153,221	142,969
Depreciation	28,290	27,649	30,734
Non-recurring restructuring provision	—	—	25,428
	1,179,642	1,112,884	1,054,484
Operating Profit	104,328	91,352	44,364
Other Income (Deductions):			
Interest expense—net of interest income of $1,555, $4,378 and $4,060 in 1987, 1986 and 1985	(18,248)	(22,995)	(24,908)
Miscellaneous—net	910	3,868	6,774
	(17,338)	(19,127)	(18,134)
Income before Taxes	86,990	72,225	26,230
Provision for Income Taxes	36,706	33,847	8,633
Income before Cumulative Effect of a Change in Accounting	50,284	38,378	17,597
Cumulative effect of a change in accounting for gain on pension asset reversion, net of taxes of $8,680	9,002	—	—
Net Income	$ 59,286	$ 38,378	$ 17,597
Primary Net Income Per Share:			
Income before cumulative effect of a change in accounting	$ 2.23	$ 1.87	$ .85
Cumulative effect of a change in accounting for gain on pension asset reversion	.40	—	—
	$ 2.63	$ 1.87	$ .85
Average primary shares outstanding	22,551	20,578	20,593
Fully Diluted Net Income Per Share:			
Income before cumulative effect of a change in accounting	$ 2.15	$ 1.69	$ .84
Cumulative effect of a change in accounting for gain on pension asset reversion	.38	—	—
	$ 2.53	$ 1.69	$ .84
Average fully diluted shares outstanding	23,872	24,867	21,931

See Financial Review

Consolidated Statements of Changes in Common Shareholders' Equity

(In thousands except share data)	Common Shares	Capital Surplus	Retained Earnings	Currency Translation Adjustment	Total Common Shareholders' Equity
At December 31, 1984	$ 56,395	$ 52,089	$123,057	$(20,658)	$210,883
Net income	—	—	17,597	—	17,597
Cash dividends	—	—	(14,628)	—	(14,628)
2% stock dividend, 179,901 shares	1,125	4,695	(5,820)	—	—
Reacquired 224,442 shares, less issuance of 2,601 shares for stock options and 13,555 for employee benefit plan	(1,302)	(6,362)	—	—	(7,664)
Distribution of CF&I Steel common stock	—	—	(54,404)	—	(54,404)
Conversion of debentures, 101,747 shares	635	799	—	—	1,434
Currency translation adjustment	—	—	—	4,279	4,279
At December 31, 1985	56,853	51,221	65,802	(16,379)	157,497
Net income	—	—	38,378	—	38,378
Cash dividends	—	—	(15,883)	—	(15,883)
50% stock distribution, 4,569,495 shares	28,559	(28,559)	—	—	—
Reacquired 401,873 shares, less issuance of 61,700 shares for stock options and 13,202 for employee benefit plan	(2,042)	(8,237)	—	—	(10,279)
Conversion of debentures, 30,479 shares	190	125	—	—	315
Currency translation adjustment	—	—	—	3,003	3,003
At December 31, 1986	83,560	14,550	88,297	(13,376)	173,031
Net income	—	—	59,286	—	59,286
Cash dividends	—	—	(19,589)	—	(19,589)
Decrease in par value from $6.25 to $1.00 per share, 15,597,357 shares	(81,886)	81,886	—	—	—
3-for-2 stock split, 7,798,679 shares	7,799	(7,799)	—	—	—
Reacquired 1,503,327 shares, less issuance of 131,398 shares for stock options	(3,382)	(36,524)	—	—	(39,906)
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

CRTX 0701

Consolidated Balance Sheets

At December 31 (In thousands except share data)	1987	1986
Assets		
Current Assets:		
Cash	$ 8,533	$ 6,445
Short-term investments, at lower of cost or market	6,419	10,277
Accounts receivable, less allowance of $2,213 ($2,409 in 1986)	155,061	146,305
Inventories, at lower of cost, principally LIFO, or market; replacement cost would be higher by $46,333 ($50,395 in 1986):		
Finished goods	106,613	104,628
Work in process	47,558	41,427
Raw materials and supplies	33,068	34,906
	187,239	180,961
Other current assets	10,016	11,618
Total Current Assets	367,268	355,006
Property, Plant and Equipment at Cost:		
Land	21,330	22,009
Buildings and improvements	133,243	131,018
Machinery and equipment	410,507	388,962
	565,080	541,989
Less accumulated depreciation	340,703	320,358
	224,377	221,631
Other Assets:		
Construction funds	3,863	12,308
Intangibles, less accumulated amortization of $11,305 ($6,642 in 1986)	11,901	15,740
Other	10,448	11,305
	26,212	39,353
Cost in Excess of Net Assets Acquired, less accumulated amortization of $9,901 ($8,119 in 1986)	43,852	34,222
	$661,709	$650,812

See Financial Review

CRTX 0702

	1987	1986
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 12,307	$ 10,106
Loans payable	19,932	22,001
Accounts payable	59,683	55,177
Accrued liabilities	86,977	76,703
U.S. and foreign taxes on income	3,979	3,384
Total Current Liabilities	182,878	167,371
Long-Term Debt	156,277	232,087
Reserves and Other Liabilities	6,730	10,312
Accrued Pension Liability	18,430	38,374
Deferred Income Taxes	41,670	23,637
Common Shareholders' Equity:		
Common shares, par value $1.00 ($6.25 in 1986):		
Authorized — 80,000,000 shares (40,000,000 shares in 1986)		
Outstanding — 22,426,088 shares (13,369,528 in 1986)		
after deducting 12,826,174 shares in treasury (7,406,699 in 1986)	22,426	83,560
Capital surplus	109,666	14,550
Retained earnings	127,994	88,297
Currency translation adjustment	(4,362)	(13,376)
Total Common Shareholders' Equity	255,724	173,031
	$661,709	$650,812

Consolidated Statements of Changes in Financial Position

For Years Ended December 31 (In thousands)	1987	1986	1985
Funds provided by operations:			
Income before cumulative effect of a change in accounting	$ 50,284	$ 38,378	$ 17,597
Depreciation	28,290	27,649	30,734
Pension reversion amortization	—	(4,060)	(3,989)
Deferred income taxes	4,081	9,272	(479)
Other—net	7,549	7,840	18,784
Funds from operations	90,204	79,079	62,647
Capital expenditures	(31,492)	(25,788)	(18,890)
Disposals of property, plant and equipment, net of foreign currency adjustments	(1,265)	3,625	(2,223)
(Increase) decrease in operating working capital	(5,782)	4,861	25,430
Decrease (increase) in other assets	5,693	(3,580)	(3,729)
(Decrease) increase in other non-current liabilities	(974)	10,020	(1,979)
Currency translation adjustments	9,014	3,003	4,279
Net funds provided by operations	65,398	71,220	65,535
Financial sources (uses) of funds:			
Acquisitions	—	(31,934)	(208,599)
Divestitures	7,619	870	15,281
Long-term debt:			
New debt	19,625	17,574	124,282
Reductions	(95,435)	(60,260)	(27,348)
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	1,958	5,031	21,440
CF&I Steel Corporation	—	—	54,404
Income from cumulative effect of accounting change for gain on pension reversion, net of taxes of $8,680	9,002	—	—
Decrease in deferred pension credit, net of taxes	(9,002)	—	—
Reacquisition of shares, less options exercised	(39,906)	(10,283)	(783)
Acquisition of minority interest in subsidiary companies	(15,328)	—	—
Conversion of debt to common shares	73,888	319	1,445
Crane shares received under pension reversion	—	—	(7,057)
Pension asset reversion, net of taxes of $19,533	—	—	20,358
Distribution of CF&I Steel to shareholders	—	—	(54,404)
Cash dividends	(19,589)	(15,883)	(14,628)
Net financial uses	(67,168)	(103,634)	(75,600)
Decrease in cash and short-term investments	(1,770)	(32,414)	(10,074)
Cash and short-term investments at beginning of year	16,722	49,136	59,210
Cash and short-term investments at end of year	$ 14,952	$ 16,722	$ 49,136

See Financial Review

CRTX 0704

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 to the 1987 presentation.

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 $5,100,000, $600,000 and $1,500,000 in 1987, 1986 and 1985, 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. Subsequent acquisitions are being depreciated using the straight-line method over their estimated useful lives.

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 1987, the change would not have been material. United States income taxes have not been provided on undistributed earnings of foreign subsidiaries since these earnings will be required for indefinite investment and any dividends expected to be paid will be covered by foreign tax credits.

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

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

Acquisitions

In 1986 the company acquired the assets of PickOmatic, a producer of cam-operated parts handling equipment, as an addition to Engineered Industrial Products. Also, seven wholesale distribution centers in the New England, northern New York, Wisconsin and New Mexico markets were purchased as additions to Huttig Sash & Door Company. 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 engineered industrial products, 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. If UniDynamics had been included since January 1, 1985, the effect on the 1985 financial statements would not have been material.

During 1985 the company also acquired 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.

Pensions

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

The company adopted Statements of Financial Accounting Standards Nos. 87 and 88 for all domestic plans effective January 1, 1987. The effect of this change in accounting increased pension costs for 1987 approximately $4,000,000 principally due to the fact that the pension reversion credit amortization was no longer available. The pension reversion credit resulted from the reversion of surplus assets in 1985 for the pension plans covering non-bargaining employees of the company and its subsidiaries, Huttig Sash & Door Company and Medusa Corporation. Included in income for 1987, as a cumulative effect of this change in accounting, was $9,002,000 of the unamortized credit, net of taxes of $8,680,000

Pension expense of domestic operations for 1987 was $6,604,000 compared to $2,320,000 in 1986 and $2,282,000 in 1985. The components of pension expense for 1987 were as follows:

(In thousands)	1987
Service cost—benefits earned during the period	$5,623
Interest cost on projected benefit obligation	5,410
Actual return on plan assets	(289)
Net amortization and deferral	(4,140)
Domestic pension expense	$6,604

The following table sets forth by funded status the amounts recognized in the company's balance sheet at December 31, 1987 for its domestic pension plans:

	Domestic Plans	
(In thousands)	Overfunded	Underfunded
Actuarial present value of benefit obligation:		
Vested	$27,138	$18,775
Nonvested	1,581	1,924
Accumulated benefit obligation	28,719	20,699
Effect of future pay increases	11,914	10,945
Projected benefit obligation	40,633	31,644
Assets and book reserves relating to such benefits:		
Funded assets at fair value	31,101	17,599
Book provisions:		
Current provision not yet funded	2,845	3,838
Provision for pension benefits	8,494	9,822
	42,440	31,259
Assets and book reserves greater (less) than projected benefit obligation	$ 1,807	$ (385)
Consisting of:		
Unrecognized net asset at date of adoption less amortization	$ 1,414	$ 131
Unrecognized net losses (gains)	393	(516)
	$ 1,807	$ (385)
Actuarial assumptions:		
Discount rate	8.5%	8.5%
Expected long-term rate of return	9.5%	9.5%
Rate of increase in compensation levels	6.25%	6.25%

Pension costs for the company's international operations are not significant and the assets in the plans exceed the liabilities. At December 31, 1986, the accumulated plan benefits were $40,215,000 and net assets were $72,428,000.

Prior to the adoption of SFAS No. 87, the actuarial present value for all domestic and international plans calculated as of December 31, 1986 was $82,498,000 based principally on an 8% discount rate, including vested benefits of $78,914,000, and net assets available for benefits were $125,355,000.

At December 31, 1987 all plan assets are invested in listed stocks and bonds. These investments include common stock of the company which represents 5% of plan assets.

The cost of providing health care and life insurance benefits on a claims paid basis for certain retired employees was approximately $2,400,000, $2,100,000 and $2,300,000 in 1987, 1986 and 1985, respectively.

Miscellaneous-Net

For Years Ended December 31 (In thousands)	1987	1986	1985
Gain on disposal of capital assets-net	$ 824	$ 1,178	$ 1,090
Minority interest	(818)	(952)	(627)
Foreign exchange gain (loss)	774	(130)	563
Gain on debt repurchase	—	48	1,460
Recovery on land sales	—	3,500	4,000
Other	130	224	288
	$ 910	$ 3,868	$ 6,774

Restructuring of Operations

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

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.

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Accrued Liabilities

At December 31 (In thousands)	1987	1986
Payrolls and employee benefits	$23,918	$21,363
Insurance	12,354	8,361
Sales allowances	8,253	5,434
Pensions	7,062	8,854
Dividend payable	5,189	4,039
Interest	4,351	6,337
Taxes other than income	3,779	3,697
Restructuring and closure costs	1,806	3,770
Other	20,265	14,848
	$86,977	$76,703

Reserves and Other Liabilities

At December 31 (In thousands)	1987	1986
Restructuring and closure costs	$ 1,540	$ 4,296
Wage benefits	1,433	1,683
Minority interest	1,395	7,083
Miscellaneous	2,362	3,250
	$ 6,730	$16,312

Short-Term Financing

At year-end there were available with domestic and foreign banks $118,000,000 in short-term credit lines of which $98,000,000 were unused at that time. Average compensating balances for lines of credit in effect at December 31, 1987 were $1,070,000 which were satisified by collected balances in the company's bank accounts. Such compensating balances reflect informal agreements and are not restricted as to withdrawal.

Long-Term Financing

At December 31 (In thousands)	1987	1986
Crane Co.:		
Senior debt:		
8¾% Convertible debentures redeemed in 1987	$ —	$ 75,000
Subordinated debt:		
10½% Sinking fund debentures due 1994	27,400	31,934
7% Sinking fund debentures due 1993	8,733	8,733
7% Debentures due 1994	48,032	48,032
5% Convertible debentures due 1993 and 1994, convertible at $5.55 to $6.39	1,560	1,753
Other, principally capital lease obligations	4,539	5,392
Total Crane Co.	90,264	170,844
Subsidiaries:		
9½% Sinking fund debentures due 1999	13,750	14,253
Floating rate bank loans:		
Canada due 1990-1996	15,400	—
United States due 1991	5,500	7,500
United Kingdom due 1991	3,029	4,552
Industrial revenue bonds	17,570	23,078
Other, principally capital lease obligations	10,764	11,860
Total subsidiaries	66,013	61,243
	$156,277	$232,087

The company had available $83,293,000 of unused long-term bank credit agreements at year-end. At December 31, 1987, the principal amounts of long-term debt repayments, net of amounts held in treasury, required for the next five years were $12,307,000 in 1988, $12,671,000 in 1989, $13,195,000 in 1990, $18,553,000 in 1991 and $11,054,000 in 1992.

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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, 1987 there was $8,000,000 of principal amount outstanding.

Covenants contained in the company's bank credit agreement (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, 1987 $56,497,000 was unrestricted) and (iv) restrict the amount of funded debt which may be outstanding at any time.

At December 31, 1987, the aggregate amount of subsidiary earnings available for dividends to the company was $110,216,000.

Commitments and Contingencies

The company leases certain of its warehouse buildings, manufacturing facilities, vehicles and equipment under capital and operating leases with terms of from one to forty years. Certain leases may be renewed for periods of from three to twenty-five years and provide either an option to purchase or reduced annual rental payments of minimal amounts. Future minimum payments, by year, and in the aggregate, under these leases with initial or remaining terms of one year or more consisted of the following at December 31, 1987:

(In thousands)	Capital Leases	Operating Leases	Minimum Sublease Income	Net
1988	$ 1,908	$11,935	$ 777	$13,066
1989	2,100	9,499	301	11,298
1990	1,997	6,706	243	8,460
1991	1,984	5,331	164	7,151
1992	1,932	4,021	60	5,893
Thereafter	12,353	14,158	361	26,150
Total minimum lease payments	22,274	$51,650	$1,906	$72,018
Interest	(7,884)			
Present value	$14,390*			

* Includes $967 due within one year

The weighted average interest rate for capital leases is 6.1%. These obligations mature in varying amounts through 2009.

Rental expense for all operating leases was $19,809,000, $18,454,000 and $17,313,000 for 1987, 1986 and 1985, respectively.

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

(In thousands)	1987	1986
Buildings and improvements	$15,816	$16,473
Machinery and equipment	13,585	20,728
	29,401	37,201
Less accumulated depreciation	14,437	21,691
	$14,964	$15,510

The company has established a self-insurance program for certain public liability costs. Insurance coverage is maintained for catastrophic exposures as well as those risks required to be insured by law.

At December 31, 1987, 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)	1987	1986	1985
Income before taxes:			
Domestic	$66,669	$60,922	$18,453
Foreign	20,321	11,303	7,777
	86,990	72,225	26,230
Statutory federal tax at 40% (46% in 1986 and 1985)	34,796	33,224	12,066
Increase (reduction) from:			
Foreign and local taxes	3,472	2,241	(1,770)
Goodwill	732	726	713
Minority interest	327	438	288
Depletion	(1,666)	(1,070)	(735)
Non-taxable FSC	(501)	(650)	(1[illegible])
Non-taxable net gains	(137)	(878)	(3[illegible])
Investment tax credits	—	(225)	(7[illegible])
Other	(317)	41	(14)
Provision for income taxes	$36,706	$33,847	$ 8,033
Percentage of income before taxes	42.2%	46.9%	32.9%

CRTX 0708

The foregoing provision includes charges for foreign taxes of $10,347,000, $5,510,000 and $3,373,000 and state taxes of $3,845,000, $3,368,000 and $433,000 in 1987, 1986 and 1985, respectively.

The provision for income taxes is composed of the following:

(In thousands)	1987	1986	1985
Deferred income taxes (benefit)	$ 4,081	$ 9,272	$ (20,012)
Current income taxes	32,625	24,575	28,645
	$36,706	$33,847	$ 8,633

Components of deferred income tax expense are as follows:

(In thousands)	1987	1986	1985
Depreciation related	$ 2,540	$ 4,349	$ 1,286
Restructuring costs	1,474	2,362	(6,997)
Inventory capitalization	(1,264)	—	—
Excess pension funding	484	465	1,363
Capital construction fund	360	235	793
Pension reversion	—	—	(19,533)
Amortization of pension reversion	—	1,988	1,953
Other	487	(127)	1,123
	$ 4,081	$ 9,272	$(20,012)

Research and Development

Product development and engineering costs aggregated approximately $10,700,000, $11,200,000 and $10,700,000 in 1987, 1986 and 1985, respectively. In addition, approximately $8,300,000, $6,800,000 and $8,400,000 was received in 1987, 1986 and 1985, respectively, for customer sponsored research and development relating to projects within Engineered Industrial Products.

Stock Options

A summary of stock option transactions follows:

	Number of Shares
Outstanding January 1, 1987	464,209
Three-for-two stock split	272,590
Options granted	133,350
Options expired	(36,304)
Options exercised	(131,398)
Outstanding December 31, 1987	702,447

In April 1987, an amendment to the 1984 Stock Option Plan which provided for an additional 750,000 shares of common stock was approved by the shareholders. At December 31, 1987, options for 201,308 shares were exercisable and 914,573 shares were available for grant. Shares and per share prices (ranging from $12.79 to $32.38) have been adjusted for the 3-for-2 stock split. In 1986, options for 61,700 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 and a right is attached to each share issued thereafter. 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 earlier terminated, 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. The company has realigned its businesses into new categories so industry segment disclosure more accurately portrays the changing nature of the industries in which the company operates. Segment description by products and industries served is given on pages 5 through 15.

CRTX 0709

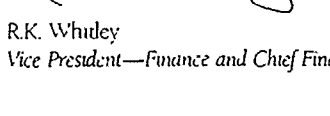
Management's Responsibilities for Financial Reporting

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

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

The consolidated financial statements have been examined by Deloitte Haskins & Sells, independent certified public accountants, whose opinion 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
Chairman, Chief Executive Officer and President

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

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, 1987 and 1986 and the related consolidated statements of income, changes in common shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1987. 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, 1987 and 1986 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, 1987 in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1987 in the method of accounting for pensions described in the note "Pensions."

New York, New York
January 25, 1988

Five Year Summary of Selected Financial Data

Crane Co. and Subsidiaries

Years Ended December 31 (In thousands)	1987	1986	1985	1984	1983
Net Sales	$1,283,970	$1,204,236	$1,098,848	$ 792,212	$ 771,679
Depreciation	28,290	27,649	30,734	23,178	25,488
Operating Profit	104,328	91,352	44,364*	48,728	23,792
Interest Expense	19,803	27,373	28,968	16,201	21,591
Income before Taxes	86,990	72,225	26,230	41,904	46,365
Income Taxes	(36,706)	(33,847)	(8,633)	(10,939)	(19,988)
Income—Continuing Operations	$ 50,284	$ 38,378	$ 17,597	$ 30,965	$ 26,377
Income Per Common Share—Continuing Operations:					
Primary	$ 2.23	$1.87	$ .85	$1.39	$1.11
Fully Diluted	2.15	1.69	.84	1.36	1.08
Dividends Declared Per Common Share:					
Cash	$.87½	$ .78	$ .71	$ .70	$ .68
Stock	—	—	2%	2%	2%
Assets	$661,709	$650,812	$659,686	$460,421	$575,916
Long-Term Debt	$156,277	$232,087	$275,918	$138,524	$202,232

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

Quarterly Results for the Year (Unaudited)

Quarter (In thousands)	First	Second	Third	Fourth	Year
1987					
Net Sales	$279,656	$337,261	$343,560	$323,493	$1,283,970
Gross Profit	52,215	69,635	72,885	69,883	264,618
Income before change in accounting	5,199	14,871	16,714	13,500	50,284
Change in accounting-pension reversion	9,002**	—	—	—	9,002
Net Income	$ 14,201**	$ 14,871	$ 16,714	$ 13,500	$ 59,286
Primary Net Income Per Share:					
Income before change in accounting	$ .25	$ .63	$ .71	$ .59	$ 2.23*
Change in accounting-pension reversion	.43**	—	—	—	.40*
Net Income	$ .68**	$ .63	$ .71	$ .59	$ 2.63*
Fully Diluted Net Income Per Share:					
Income before change in accounting	$ .25	$ .62	$ .70	$ .58	$ 2.15
Change in accounting-pension reversion	.37**	—	—	—	.38*
Net Income	$ .62**	$ .62	$ .70	$ .58	$ 2.53*
1986					
Net Sales	$259,290	$310,763	$323,122	$311,061	$1,204,236
Gross Profit	49,123	64,935	66,297	66,159	246,514
Net Income	4,231	11,047	12,511	10,589	38,378
Net Income Per Share:					
Primary	$ .21	$ .53	$ .61	$ .52	$ 1.87
Fully Diluted	.20	.48	.54	.47	1.69

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

** Cumulative effect of a change in accounting for gain on pension asset reversion was retroactively adjusted for a revision of the estimated Projected Benefit Obligation at January 1, 1987.

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Management's Discussion and Analysis of Operations and Financial Condition

Results of Operations

Overall—Net sales for 1987 of $1,284 million were 6.6% and 16.8% above 1986 and 1985, respectively. Operating profit improved significantly in 1987 to $104 million, a 14.2% increase over 1986 and 49.4% above 1985 excluding the $25.4 million charge for non-recurring restructuring costs in that year. Income, before the credit for the change in accounting for pension reversion, was $50.3 million in 1987, 31% over 1986 which was in turn a substantial improvement over 1985. Return on shareholders' equity in 1987 again exceeded 20%. The $9 million credit to net income in 1987 relates to a change in accounting for the 1985 pension reversion, as required by the new accounting pronouncement, SFAS 88.

Engineered Industrial Products

The Engineered Industrial Products segment in 1987 accounted for 50% of the company's sales, 47% of operating profit, and employed 61% of the assets. Sales and operating profit were as follows:

(In millions)	1987	1986	Change
Sales	$649.8	$629.1	3%
Operating Profit	55.4	62.3	(11)%

Sales in the segment increased approximately $21 million. Major improvements were achieved in the Canadian plumbing business where market penetration improved in a continuing strong construction market, and in the automatic merchandising equipment business where new and innovative products were introduced. Sales also increased in the valves and fittings businesses outside of the United States. The defense related businesses generally had lower shipments due to delays in receipt of contracts and an overall reduction in government appropriations. Lower spending by the automotive industry reduced demand for Ferguson components and systems for automated production. Other businesses in this segment generally had sales in line with the prior year.

Operating profit was below the prior year primarily due to start-up costs related to replacing an old facility with two new plants producing specialized fittings for aircraft, and plastic lined pipes and fittings for industries using corrosive liquids. In addition, higher pension costs were incurred due to the change in accounting. The Hydro-Aire aircraft components operation had another excellent year, although somewhat below 1986. The Canadian plumbing and the automatic merchandising businesses had significantly improved profits compared with 1986 as a result of increased volume and operating margins. Valves and fittings operations in the United Kingdom and Canada continued to improve; however, the United States valve business operated at a loss in 1987 comparable to that of 1986. The businesses with lower volume, principally those related to defense and Ferguson, had results below 1986.

Segment sales in 1986 increased 6% over 1985 and operating profit increased commensurately after excluding the $22 million charge in 1985 for restructuring and closure of certain operations. The Hydro-Aire operation was a major contributor to the sales and profit improvement

Wholesale Distribution

The Wholesale Distribution segment accounted for 36% of the company's 1987 sales, 28% of operating profit and employed 23% of the assets. Sales and operating profit were as follows.

(In millions)	1987	1986	Change
Sales	$467.4	$428.7	9%
Operating Profit	32.4	25.3	28%

The increase in sales for this segment was 20%, excluding the United States, Crane Supply plumbing and heating distribution operations sold in February, 1987. Huttig Sash & Door's record sales came as a result of the full year contribution of the five branches in the Northeast acquired in late 1986 plus a strong remodeling and construction market in the other thirty-eight branches. Crane Supply, Canada's increased sales in its 39 branches reflected the continued strong construction and industrial markets in 1987.

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Operating profit generally reflected the sales increases at both operations, plus significantly improved margins in Canada.

Segment sales in 1986 increased 12% over 1985, while operating profit was up 30%. Huttig Sash & Door accounted for a major portion of both increases.

Cement and Aggregates

The Cement and Aggregates segment, Medusa Corporation, accounted for 14% of the company's 1987 sales, 25% of operating profit and employed 16% of the assets. Sales and operating profit were as follows:

(In millions)	1987	1986	Change
Sales	$184.4	$160.5	15%
Operating Profit	29.2	16.3	79%

Sales in the segment increased approximately $24 million. The cement operations accounted for $17 million of the increase with the major portion being shipments from Charlevoix, Michigan. As part of the continuing program to increase the distribution capability for this plant which services the Great Lakes region, a terminal in Toledo, Ohio was completed in mid-1987 and a new cement barge was put into service. This improved our ability to market additional product. The aggregates and construction services operations continued to increase sales. All areas benefited from higher levels of highway construction spending.

Operating profit for the major businesses, cement and aggregates, was at a record high, reflecting the higher volumes, the greater utilization of the highly efficient Charlevoix plant, and production cost reductions. Overall, cement prices were slightly above 1986.

Segment sales in 1986 increased 16% over 1985 reflecting the strong construction market in the upper Midwest. Operating profit of $16.3 million was 173% above 1985 reflecting the higher volume, lower operating cost and improved margins.

Financial

Net interest expense declined by $4.7 million from 1986 due primarily to the conversion in March, 1987 of the company's 8¾% debentures. Net interest expense in 1986 was below the 1985 level as a result of lower average borrowing levels and interest rates, partially offset by lower investment income.

Miscellaneous income was $.9 million in 1987, compared with $3.9 million in 1986 and $6.8 million in 1985. The 1986 and 1985 income included $3.5 million and $4.0 million, respectively, of recoveries from sales of land and water rights held for disposal.

The company's effective income tax rate for 1987 decreased to 42.2% compared with 46.9% in 1986 due to changes in the United States tax law. The increase in the 1986 effective rate from 32.9% in 1985 was primarily due to higher realization of foreign tax credits in 1985 and lower investment tax credits in 1986 due to the 1986 Tax Reform Act.

Liquidity and Capital Resources

During the past three years, the company has depended primarily upon funds provided from operations to finance its working capital requirements, capital expenditures and debt repayments. The company has available $118 million in short-term unsecured credit lines, which are used from time to time to meet seasonal working capital requirements, as well as $83 million of unused credit under long-term bank credit agreements. At December 31, 1987, working capital totalled $184 million, approximately the same as in 1986. Long-term debt decreased to 61% of shareholders' equity at December 31, 1987 compared to 134% in the prior year, primarily as a result of the company redeeming its $75 million convertible senior debt issued in 1985.

The company purchased common shares for $42 million or the equivalent of 1.7 million shares after adjusting for the 3-for-2 stock split in May 1987, compared with $12 million in 1986. During 1987 the minority interests in Medusa and Huttig were acquired for $15 million.

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Analysis by Segment

(In thousands)	1987 Amount	%	1986 Amount	%	1985 Amount	%
Net Sales:						
Industry Segments:						
Engineered Industrial Products	$ 649,815	50	$ 629,105	52	$ 591,719	53
Wholesale Distribution	467,352	36	428,691	35	382,597	34
Cement and Aggregates	184,374	14	160,518	13	138,146	13
	1,301,541	100	1,218,314	100	1,112,462	100
Intersegment Sales	(17,571)		(14,078)		(13,614)	
	$1,283,970		$1,204,236		$1,098,848	
Geographic Region:						
United States	$ 995,754	77	$ 961,687	79	$ 878,323	79
Canada	183,216	14	154,007	13	142,793	13
Other International	116,724	9	98,542	8	83,961	8
	1,295,694	100	1,214,236	100	1,105,077	100
Interregional Sales	(11,724)		(10,000)		(6,229)	
	$1,283,970		$1,204,236		$1,098,848	
Operating Profit:						
Industry Segments:						
Engineered Industrial Products	$ 55,396	47	$ 62,277	60	$ 36,891*	59
Wholesale Distribution	32,435	28	25,288	24	19,428*	31
Cement and Aggregates	29,198	25	16,308	16	5,970	10
	117,029	100	103,873	100	62,289	100
Corporate	(12,701)		(12,521)		(17,925)*	
	$ 104,328		$ 91,352		$ 44,364	
Geographic Region:						
United States	$ 90,152	77	$ 87,630	84	$ 52,284	84
Canada	17,654	15	11,259	11	8,652	14
Other International	9,223	8	4,984	5	1,353	2
	117,029	100	103,873	100	62,289	100
Corporate	(12,701)		(12,521)		(17,925)	
	$ 104,328		$ 91,352		$ 44,364	
Assets:						
Industry Segments:						
Engineered Industrial Products	$ 386,710	61	$ 377,579	60	$ 360,163	62
Wholesale Distribution	148,505	23	148,503	24	126,818	22
Cement and Aggregates	98,095	16	101,870	16	93,908	16
	633,310	100	627,952	100	580,889	100
Investments Held for Disposal	124		2,081		7,112	
Corporate	28,275		20,779		71,685	
	$ 661,709		$ 650,812		$ 659,686	
Geographic Region:						
United States	$ 482,125	76	$ 508,588	81	$ 473,448	82
Canada	76,233	12	58,990	9	52,032	9
Other International	74,952	12	60,374	10	55,409	9
	633,310	100	627,952	100	580,889	100
Investments Held for Disposal	124		2,081		7,112	
Corporate	28,275		20,779		71,685	
	$ 661,709		$ 650,812		$ 659,686	

* Reflects pre-tax charge for costs of restructuring and closure of certain operations of $25,428 in 1985, $21,610 Engineered Industrial Products, $1,390 Wholesale Distribution and $2,428 Corporate.

Analysis by Segment (continued)

	Capital Expenditures			Depreciation		
	1987	1986	1985	1987	1986	1985
Industry Segments:						
Engineered Industrial Products	$12,938	$ 9,579	$12,205	$15,531	$13,949	$15,481
Wholesale Distribution	3,312	5,441	3,133	2,523	2,210	1,973
Cement and Aggregates	15,242	10,707	2,490	10,023	11,258	12,602
Corporate	—	61	1,062	213	232	678
	$31,492	$25,788	$18,890	$28,290	$27,649	$30,734
Geographic Region:						
United States	$25,727	$21,042	$14,625	$23,029	$23,307	$26,707
Canada	3,688	2,723	1,824	1,727	1,260	1,067
Other International	2,077	2,023	2,441	3,534	3,082	2,960
	$31,492	$25,788	$18,890	$28,290	$27,649	$30,734

Market and Dividend Information—Common Shares

	New York Stock Exchange Composite Price Per Share*				Dividends Per Share*	
	1987		1986		1987	1986
Quarter	High	Low	High	Low		
1st	$31¼	$22⅝	$21½	$16½	$.20	$.18
2nd	31⅜	24⅜	22⅝	19⅛	.22½	.20
3rd	35½	28¼	20⅞	17⅞	.22½	.20
4th	34¾	17½	24⅞	18⅜	.22½	.20
					$.87½	$.78

* Adjusted for three-for-two stock split in 1987 and 50% stock distribution in 1986

At December 31, 1987 there were approximately 7,900 holders of Crane Co. common stock

Operations

Engineered Industrial Products

Chempump Division
Warrington, Pennsylvania

Cochrane Environmental
Systems Division
King of Prussia, Pennsylvania

Cor Tec Company
Washington Courthouse, Ohio

Crane Australia Pty., Limited
Sydney, Australia

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

Crane Ltd.
London, England

Crane Midwest
St. Louis, Missouri

Deming Division
Salem, Ohio

Ferguson Machine Company
St. Louis, Missouri

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

Hydro-Aire Division
Burbank, California

Kemlite Company
Joliet, Illinois

National Vendors
St. Louis, Missouri

National Rejectors, Inc., GmbH
Buxtehude, West Germany

Polyflon Company
New Rochelle, New York

Resistoflex/Defense
Jacksonville, Florida

Resistoflex/Industrial
Marion, North Carolina

Unidynamics/Phoenix, Inc.
Phoenix, Arizona

Unidynamics/St. Louis, Inc.
St. Louis, Missouri

Valve Division
King of Prussia, Pennsylvania

Wholesale Distribution

Huttig Sash & Door Company
Chesterfield, Missouri

Crane Canada, Inc.
Crane Supply Division
Montreal, Canada

Cement and Aggregates

Medusa Corporation
Cleveland, Ohio

Directors

E. Thayer Bigelow, Jr. [2, 3]
President, American TV & Communications, Inc.; A Subsidiary of 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
President, Forté Cashmere Company, Inc.; 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

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
Vice President, Corporate & President, Hydro-Aire Division

Eric G. Dalrymple
Treasurer

Thomas C. Fish
Vice President, Corporate Development

Jack M. Fraser
Executive Vice President

Paul R. Hundt
Vice President, Secretary & General Counsel

Richard B. Phillips
Vice President, Human Resources

Michael L. Raithel
Controller

Thomas F. Spencer
Vice President, Corporate Planning

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

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

Form 10-K
Copies of Form 10-K for 1987 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 25, 1988 on the 10th floor of Morgan Guaranty Trust Company of New York, 9 West 57th Street, New York, New York

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

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

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

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

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

Auditors
Deloitte Haskins & Sells
New York, New York 10048

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

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CRANE®

Crane Co.
757 Third Avenue
New York, New York 10017