

1999 Annual Report

# Crane Co.

## Our Credo

We strive for a dominant presence  
in niche markets.

We generate solid rates of return on invested  
capital and high levels of cash flow.

We use our cash effectively to grow and strengthen  
our existing businesses, and to acquire new businesses.

We acquire businesses that fit with our  
existing businesses and strengthen our position  
in niche markets.

We maintain an incentive compensation plan  
specifically designed to align the interests of  
management and shareholders.

We do this with one goal in mind:  
To build shareholder value.

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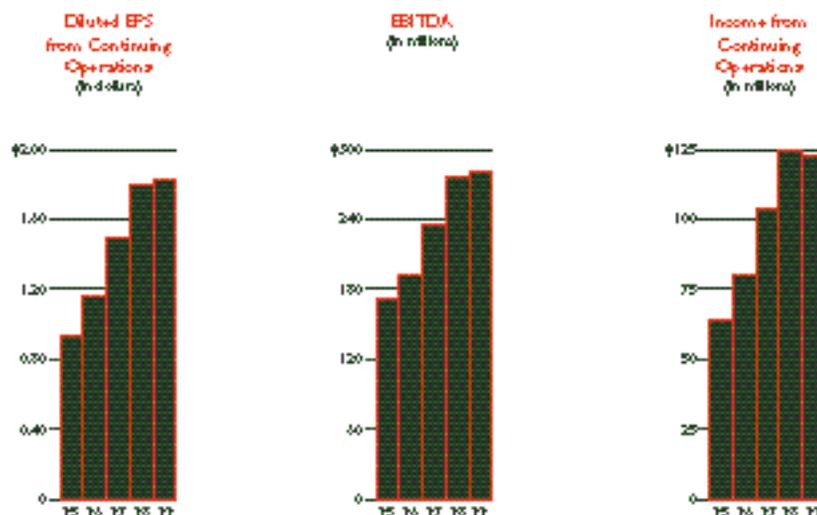
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## Financial Highlights

	(\$ and shares in thousands except per share data)	1999	1998	% Change
<b>Summary of Operations</b>	Net Sales	<b>\$1,553,657</b>	\$1,561,055	— %
	EBITDA <sup>(b)</sup>	<b>279,916</b>	276,323	1.3%
	Operating Profit	<b>204,541<sup>(a)</sup></b>	211,961	(3.5)%
	Income Before Taxes	<b>190,782<sup>(a)</sup></b>	192,789	(1.0)%
	Income from Continuing Operations	<b>123,465<sup>(a)</sup></b>	124,842	(1.1)%
	Cash Flow <sup>(c)</sup>	<b>184,745</b>	180,715	2.2%
<b>Diluted Share Data</b>	Income from Continuing Operations	<b>\$ 1.83<sup>(a)</sup></b>	\$ 1.80	1.7%
	Cash Flow	<b>2.74</b>	2.61	5.0%
	Dividends	<b>.40</b>	.37	8.1%
	Average Diluted Shares	<b>67,460</b>	69,368	
<b>Financial Position at December 31,</b>	Assets	<b>\$1,175,447</b>	\$1,379,731	(14.8)%
	Net Debt	<b>297,183</b>	392,384	(24.3)%
	Shareholders' Equity	<b>568,110</b>	643,234	(11.7)%
	Market Value of Equity <sup>(d)</sup>	<b>1,248,199</b>	2,067,206	(39.6)%
	Market Capitalization <sup>(d)</sup>	<b>1,545,382</b>	2,459,590	(37.2)%
<b>Key Statistics</b>	Sales per Employee	<b>\$ 161</b>	\$ 155	
	Operating Profit as a % of Sales	<b>13.2%<sup>(a)</sup></b>	13.6%	
	Income from Continuing Operations as a % of Sales	<b>7.9%<sup>(a)</sup></b>	8.0%	
	Return on Average Assets-Continuing Operations	<b>10.1%<sup>(a)</sup></b>	10.7%	
	Return on Average Shareholders' Equity	<b>21.1%<sup>(a)</sup></b>	23.8%	
	Net Debt to Capital	<b>34.3%</b>	37.9%	

- (a) Before pre-tax special charges of \$34,987 (\$22,567 after tax or \$.33 per diluted share.)  
 (b) EBITDA is earnings before interest, taxes, depreciation and amortization and special charges.  
 (c) Cash flow is income from continuing operations before special charges plus depreciation and amortization.  
 (d) Market value of equity is number of shares of common stock outstanding times closing stock price. Market capitalization is market value of equity plus net debt.



# Chairman's Letter to Shareholders

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Dear Shareholder:

After a strong performance in 1998, Crane Co. overcame weakness in some markets and operating problems in several businesses in 1999 to achieve slightly higher per-share earnings and cash flow, before one-time charges, on essentially level sales.

We took aggressive action to sharpen our corporate focus on manufacturing, strengthen margins, and position Crane to resume its strong earnings growth, which has averaged about 18% annually over the past five years. We spun off our distribution business, Huttig Building Products, our largest single unit, in mid-December, reinforcing Crane's position as a manufacturer of engineered industrial products. In order to deal with softness or declines in key markets and reduce our cost base in our Fluid Handling, Aerospace, and Controls segments, we consolidated facilities, reduced staff and rationalized product lines. In all, five manufacturing facilities and eight peripheral facilities have been or will be closed.

These actions are expected to improve annual operating results by \$26 million.

## 1999 Results

Before special charges associated with our repositioning and cost-reduction programs, our net earnings from continuing operations for the year were \$1.83 per diluted share, compared with \$1.80 in 1998, on fewer shares outstanding. Earnings from discontinued operations — Huttig — contributed \$.20 per diluted share, equal to Huttig's 1998 results, for a total of \$2.03 per diluted share versus \$2.00 in 1998. The special charges, \$.33 per diluted share, lowered 1999 net earnings to \$1.70 per diluted share.

Income from continuing operations before special charges was \$123.5 million in 1999, a dip of 1% from \$124.8 million in 1998, on sales of \$1.55 billion. Special charges, net of taxes, totaling \$22.6 million, reduced income from continuing operations to \$100.9 million.

Cash flow from continuing operations increased from \$2.61 per diluted share to \$2.74 in 1999, before special charges. After special charges, cash flow was a strong \$2.40 per diluted share, or \$162.2 million — equal to 10 cents per dollar of sales.

## Positive Achievements

In spite of the difficult operating environment, we continued to make good progress in pursuing three key objectives:

- Enhancing Crane's intellectual capital — finding and nurturing the talented, dedicated people who will create the company's future. We installed new leadership at several businesses, hiring or promoting skilled executives to those positions. We brought aboard Eric C. Fast, former Co-Head of Global Investment Banking for Salomon Smith Barney, as Crane's President and Chief Operating Officer. He replaces L.Hill Clark, who retired but is continuing to help us in a manufacturing consulting role.
- Focusing on the customer — moving vigorously to determine our customers' needs and investing in innovative, cost-efficient ways to meet those needs, including new products and e-commerce solutions.
- Achieving operational excellence — aggressively deploying a range of techniques including Six Sigma, lean manufacturing and focused factories to shorten manufacturing cycle times, increase efficiency and reduce costs.

We have invested \$40 million over the past several years to assure that our businesses have state-of-the-art ERP systems. Eleven such business systems were implemented in 1999 alone, and they are already delivering on the promise of increased manufacturing and administrative efficiency and lower cost. These systems had the added benefit of making the businesses "Y2K" compliant.

Our Operational Excellence program has continued to demonstrate its value. At all of our businesses, "black belts" trained in Six Sigma analytical techniques and lean manufacturing methods are streamlining our production and business processes, reducing waste, and improving our competitive

position and the bottom line. At one of those businesses, Lear Romec, the new president is herself a black belt. Cost savings from Six Sigma projects totaled approximately \$18 million in 1999.

Our EVA compensation system, which ties managers' rewards to actual economic value added, is also contributing to development of a highly beneficial, results-oriented culture throughout Crane.

### Segment Overview

Two of our five business segments — Engineered Materials and Merchandising Systems — achieved higher sales and operating profits. The Fluid Handling segment, particularly our valve businesses, was hard hit by the global downturn in the oil and gas markets and had earnings of only \$4 million after absorbing \$18.9 million of special charges to close four manufacturing facilities and five peripheral facilities, and rationalize product lines. From the beginning of 1999, our companies in this segment reduced their employment by 18%, with an additional 3% reduction expected in the first quarter of 2000. Controls, facing soft energy markets, recorded a modest operating profit. In Aerospace, sales and profits fell more than anticipated, as Boeing sold fewer widebody airplanes and aftermarket demand for provisioning spares declined. Aerospace remained our most profitable segment, however, with 1999 operating profits surpassed only by the extraordinarily strong 1997 and 1998 results.

### Strong Gains in Engineered Materials Segment

Engineered Materials turned in an excellent performance, fueled by strong sales and operating profit gains at Kemlite and Resistoflex. Kemlite's sales of fiberglass-reinforced plastic panels benefited from its strong positions in the transportation, recreational vehicle (RV) and building products markets and from a full year's results from its 1998 Sequentia acquisition. Resistoflex's plastic-lined pipe, hose and fittings business similarly benefited from synergies and full-year results from its 1998 acquisition of Plastic-Lined Piping Products.

### Acquisition Boosts Merchandising Systems Results

National Vendors had its best sales year, maintaining its 1998 gains and getting a boost in the United Kingdom from the addition of Stentorfield in October 1999. Stentorfield's strength in the U.K. Office Coffee Service (OCS) market extends National Vendors' existing leadership in the snack and food vending machine market there, and gives the company a strong entry into the large European hot drink market.

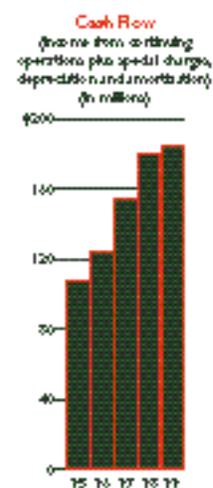
National Rejectors, based in Germany, also had increased sales and significantly higher operating profits, despite growing competition in the coin-validation industry and delayed approval of designs for euro-denominated coins.

### Revamping of Valve Businesses

We took far-reaching measures to rationalize our global valve businesses, which have been hurt by the oil and gas capital spending downturn, by Asia's economic ills, and by internal problems. We reduced our personnel by approximately 25% and closed or downsized a number of facilities in North America and Europe. As a result of these actions, and with stronger oil and gas markets likely, we look for a return to solid profitability in 2000.

### Huttig Spun Off to Shareholders

Our businesses have generally been effective in establishing strong, defensible positions in niche markets, where we can earn good margins on the high-value-added, engineered products we manufacture. Huttig is in a different business that does not fit our strategy or earnings goals. As a building products distribution business, it has inherently lower operating margins, which have made the impressive margins in our manufacturing business harder to see in our consolidated results. The Huttig spin-off will significantly increase Crane's overall operating margin, and should result in a higher price/earnings ratio for our stock. That, in turn, will help with acquisitions, which are an important part of our growth strategy. As part of the Huttig spin-off, Crane received \$68 million, which was used to pay down debt, strengthening our balance sheet. Crane shareholders received a tax-free dividend on December 16, 1999, of one share of Huttig common stock for each 4.5 shares of Crane stock held.



Also in December, we sold Crane Defense Systems, which builds large shipboard equipment for the Navy, for \$7.2 million.

### Financial Strength and Shareholder Value

An important goal at Crane has been to grow our cash flow, which increases our flexibility in building shareholder value. It is worth noting that our 1999 cash flow of \$260 million, including the Huttig spin-off, roughly approximates our investment in Stentorfield (\$33 million), the repurchase of 6.0 million shares of Crane stock (\$124 million) and a significant reduction in our debt (\$108 million). Although we prefer to invest in our existing businesses or make attractive acquisitions, we will continue to repurchase Crane stock when it is undervalued and when doing so represents the best way of enhancing shareholder value.

### New Directors Join Board

Retirements led to the election of two new directors to Crane's Board. Boris Yavitz retired from the Board after 12 years of service and will be missed, as will his guidance and counsel on corporate policy and governance. He was replaced by John Lee, Chairman and Chief Executive Officer of Hexcel Corporation, who brings a depth of financial and operating experience and strong knowledge of the aerospace industry. Eric C. Fast, our new President and COO, was also elected to the board.

### New Century, Positive Outlook

The first year of the new century should be a positive one for Crane, with good gains in sales and earnings, and stronger gains in earnings per share as a result of improved margins and continued deployment of our strong cash flow. The U.S. economy seems likely to remain strong and growing, with the Asian and European economies continuing their recovery. Oil and gas markets are expected to turn up before mid-year. Our 1999 cost-cutting actions and operating improvements will have a continuing positive effect in 2000, and we are well positioned to make acquisitions that meet our criteria, further enhancing growth. We look for flat sales but improved earnings in Fluid Handling, and much stronger sales and profits in the Controls segment. Aerospace sales and earnings are likely to stabilize at levels below 1999, with increased sales for regional and business jets partially offsetting lower Boeing business. We anticipate higher sales and earnings in the Engineered Materials segment, where both Kemlite and Resistoflex have extremely strong positions in their markets. We also have high expectations for Merchandising Systems, where both National Vendors and National Rejectors combine great strength in their home markets with high-potential new products and effective strategies for increased penetration in Europe.

All told, 2000 looks at this writing like a good year, and prospects for subsequent years are considerably brighter.

We want to thank our customers for their loyalty, our suppliers for their focus on quality and timeliness, and our employees for the dedication and skill they bring to work every day. We also wish to thank the members of our Board of Directors for the perceptive and valuable guidance they provide, and our shareholders for their continuing support.

Sincerely,



R.S. Evans  
Chairman and Chief Executive Officer  
February 15, 2000



Eric C. Fast  
President and Chief Operating Officer

## 1999 Review

Crane's businesses report their  
results in five segments:

Engineered Materials  
Merchandising Systems  
Aerospace  
Fluid Handling  
Controls

In the pages that follow,  
we discuss these results,  
along with the events,  
trends, market dynamics and  
management initiatives  
that influenced them.

# Management's Discussion and Analysis of Operations

## Engineered Materials

### Strong Gains in Engineered Materials

(dollars in millions)	1999	1998
Sales	\$357.1	\$279.0
Operating Profit	59.9*	39.7
Operating Margins	16.8%	14.2%

\*Before special charges of \$3.2 million.

Sales, operating profit and operating margin increased to record levels in the Engineered Materials segment, fueled by internal growth and acquisition-related gains at Kemlite and Resistoflex. Operating profit increased by 51% before special charges of \$3.2 million on a 28% sales gain, as two of the segment's five businesses improved their results. Operating profit after special charges was \$56.7 million. Order backlog at year end totaled \$25 million, up \$1 million from the prior year. Special charges were principally for a product liability issue related to a Crane Plumbing facility closed in 1990.

### Kemlite Increases Sales, Operating Profit

Kemlite, the largest business, had a record year, with sales and operating profit up 40% and 58%, respectively, largely because of full-year results from its Sequentia acquisition. Kemlite's core business — fiberglass-reinforced-plastic (frp) liner panels and translucent roofs for trucks and trailers and side panels for recreational vehicles (RV) — grew 15% overall. Kemlite's shipments to the truck and trailer markets, expected to decline in 1999, instead rose 8%, and shipments to the RV market increased 23% as RV unit volume exceeded 300,000 for the first time. Kemlite, the industry leader in both markets, also benefited as supplier to the faster-growing RV manufacturers. Sales of building products gained 11%. International sales jumped 23% on sales of \$1.6 million for military shelters for British troops in Kosovo and strong fourth quarter sales in Canada and South Korea. The company also opened a sales office in Shanghai. Kemlite successfully introduced its new fiber-free, higher-gloss Medallion® panels to the RV market and improved manufacturing efficiency at all three plants through Six Sigma and other cost-reduction efforts.

### Difficult Year for CorTec

CorTec, Crane's other manufacturer of fiberglass-reinforced materials, saw sales drop 25% from 1998 and reported a loss for the year, as several trailer fleets switched away from CorTec's fiberglass-reinforced plywood side panels to other materials. High mid-year plywood costs, lower volume and aggressive pricing to gain market share in truck body panels lowered operating profit and margin. CorTec incurred additional development expenses for its new Encor® product, in which a foam core replaces plywood, and is repositioning it as a premium material for refrigerated trailers and controlled temperature food service trucks. Encor®, impervious to rot, is finding a niche in houseboats and in personal cargo, utility and specialty trailers. CorTec implemented a new, customer-focused enterprise resource planning system (ERP), and has reduced Encor® production costs through Six Sigma projects. Lower costs, improving pricing, and sales to Ryder for larger rental trucks should strengthen results in 2000.

### Record Results for Resistoflex

Resistoflex enjoyed its best year, with sales and operating profit up sharply, principally as a result of its fourth quarter 1998 acquisition of Plastic-Lined Piping Products. Resistoflex achieved these results despite a cyclical downturn in the global chemical processing industry, a major user of its corrosion-resistant, Teflon-lined pipe, fittings and hoses, and a slowdown in its military business as the government ended production of the F-15 fighter. Successful integration of Plastic-Lined Piping Products into its operations yielded important production, administrative, sales and supply chain synergies. A new ERP system linked the company's plants in Marion, North Carolina, and Bay City, Michigan, with the defense business in Jacksonville, Florida. Resistoflex also introduced its flangeless Conquest® system for creating leakproof, welded connections of Teflon-lined pipe, designed to address safety and environmental concerns and reduce installation and maintenance costs. It also acquired a new facility in Singapore to serve the strengthening Asian chemical and pharmaceutical markets. In 2000, the company will focus significant resources, including e-commerce initiatives, on increasing its small market share in Teflon-lined flexible hose.

### Sales Up at Crane Plumbing

Crane Plumbing increased sales by 7%, but price competition and substantial investments in new product and sales initiatives led to a loss for the year before a special charge of \$3.1 million for a product liability issue related to a facility that was closed in 1990. The company gained volume and share in Canadian retail markets, and now supplies every major retailer with Crane china and steel lavatories, toilets, tubs and showers, with Home Depot as its largest customer. From a modest base, sales to U.S. wholesale customers increased, and the company plans to push into U.S. retail markets. Wholesale volume in Canada dipped as construction declined in Quebec and British Columbia, but sales increased in the key Ontario market. Crane plans to introduce a new line of gelcoat shower products positioned between its economy steel and high-end acrylic products. A new ERP system and several Six Sigma projects achieved significant cost reductions.

### Polyflon Operating Profit Rises

Polyflon, Crane's smallest business, improved its operating profit on slightly lower sales of its capacitors and proprietary microwave materials.

### Outlook

Sales and operating profit should increase in 2000, although less than in 1999. Kemlite's transportation, recreational vehicle and building products markets are expected to remain strong, CorTec's sales and operating margins should improve, and Resistoflex should benefit from recovering Asian and European markets and a second-half pickup in domestic chemical processing markets. Crane Plumbing and Polyflon also look for modest sales and operating profit growth.

Business Unit	Products	Markets Served
Kemlite	Fiberglass-reinforced plastic (frp) panels used as side-walls and roofs	Recreational vehicle, truck trailer and commercial and residential construction
CorTec	Fiberglass-reinforced laminated composite panels	Trucks and truck trailers, special-purpose trailers, marine houseboats and general construction
Resistoflex	Corrosion-resistant plastic-lined pipe, fittings, tanks, valves, expansion joints and hose assemblies, high-performance aerospace fittings	Pharmaceutical, chemical processing, pulp and paper, ultra-pure water, waste management industries, military and aerospace contractors
Crane Plumbing	Plumbing and sanitary fixtures	Residential, industrial, commercial and institutional construction and renovation markets in Canada
Polyflon	Microwave laminates, circuit processing, high-voltage RF capacitors, radomes	Wireless communications, magnetic resonance imaging, microwave and radar system manufacturers

# Merchandising Systems

## Sales, Operating Profit Growth in Merchandising Systems

(dollars in millions)	1999	1998
Sales	\$201.9	\$191.9
Operating Profit	35.8	33.5
Operating Margins	17.7%	17.5%

The Merchandising Systems segment achieved a 7% earnings gain in 1999 on a 5% increase in sales. National Rejectors, Crane's European coin-validation equipment business, generated a significant operating profit increase.

### Strong Prospects for National Vendors

At National Vendors, the larger of the segment's two businesses, sales advanced moderately despite a flat domestic market, stiff price competition in European markets, and delayed introduction of new Office Coffee Service products. National Vendors held onto and expanded its 1998 market share gains, and several positive developments positioned the business for strong growth.

The October 1999 acquisition of Stentorfield, a leading U.K. manufacturer of coffee machines, gave National Vendors a needed strong entry into Europe's large coffee machine market. National Vendors, with its new Millennia-styled machines, was already the clear market leader in snack and food machines in the U.K. but its coffee machines were less popular. National Vendors is integrating Stentorfield products into its strong snack and food machine businesses in France and Germany, and has folded its U.K. unit, UMC, into Stentorfield to provide both Office Coffee Service (OCS) and snack and food machine sales and service to the U.K. and certain European distributors.

Although sales were flat in the U.K. and declined slightly in France, National Vendors' German unit had a banner year, with successful marketing initiatives aimed primarily at Germany but also at Holland, Austria, Hungary and the Middle East. The company took share from competitors in the German market by focusing on quality service.

After a worldwide competition, National Vendors received its largest order ever late in the year from Smith's, a leading Australian snack company owned by PepsiCo, giving the company a strong, immediate presence in a large, new overseas market. National Vendors increased its penetration of Latin American markets by winning other large orders from Nestlé Mexico, considered a bellwether for other Nestlé units in the region, and Sodexho, a French worldwide catering company that selected National Vendors as its preferred vending machine supplier for Chile and Argentina.

National Vendors expanded its potential in the domestic OCS market by introducing four new, single-cup-brewing office coffee machines in early November. Two are compact models for office shelves; two are improved or high-traffic versions of the full-sized Café 7 machine.

The company's new-product focus responds to operators' desire for glass-front machines, which generate much higher merchandising sales. One product being introduced domestically in 2000 is an all-weather, outdoor snack machine, the ATM (All Temperature Machine) Snack. The machine, rigorously tested under harsh outdoor conditions at 26 customer locations around the U.S., provides operators access to outdoor snack sales for the first time.

### NRI Increases Sales, Operating Profit

National Rejectors (NRI) increased sales of its coin changers and validators by 12% on solid demand for its new four-tube changer and its electronic coin-validation equipment for outdoor cigarette machines. Improved manufacturing efficiency and lowered costs for some products, largely the result of Six Sigma cost reduction projects, strengthened margins, leading to a strong operating profit gain.

Delays by some European mints in issuing sample euro coins continued to slow the process of finalizing software requirements to operate euro-capable changers and validators, leading many NRI customers to postpone orders. Euro coins, still differing slightly from country to country but acceptable throughout the euro region, will begin to circulate in 2002. NRI will start shipping its Euromatic® validator and changer equipment during the first quarter, and expects accelerating bookings as vending operators rush to modernize.

NRI's sales were strong in Spain and France, but slower in the highly competitive U.K. market. Sales to Canada for the Canadian lottery declined slightly, but volume in Chile, where NRI products are used in bus ticketing, was strong.

### Outlook

Both National Vendors and NRI expect strong sales and operating profit gains in 2000. National Vendors' new products and increased presence and offerings in the U.K., continental Europe, Australia and Latin America, and a full-year contribution from Stentorfield will boost results significantly. NRI expects solid gains in bookings, sales and operating profit as customers begin to prepare for the advent of the euro coin.

Business Unit	Products	Markets Served
National Vendors	Electronic vending merchandisers for refrigerated and frozen foods, hot and cold beverages, office coffee services (OCS), snack foods, coin and currency changers	Automated merchandising, office coffee service
National Rejectors, Inc. GmbH (NRI)	Electronic coin validators and changers, chip card cashless payment systems	Automated merchandising

## Aerospace

### Decline in Aerospace Sales, Operating Profit

(dollars in millions)	1999	1998
Sales	\$363.1	\$394.5
Operating Profit	96.1*	118.2
Operating Margins	26.5%	30.0%

\*Before special charges of \$9.0 million.

Aerospace continued to be Crane's most profitable segment, but sales fell below the exceptionally strong 1998 results, and margins and operating profit declined. Order backlog totaled \$233 million at December 31, 1999, compared with \$281 million in the prior year. Special charges recorded in the third and fourth quarters of 1999 reflect costs incurred to reduce staffing levels, rationalize product lines, and address a product warranty issue. The cost of these actions totaled \$9 million (\$5.5 million cash, \$3.5 million non-cash). Annual savings from these actions are expected to total \$11.5 million. Staff levels in the Aerospace businesses have been reduced by 446 people, or 18%, since the beginning of 1999.

Boeing, the segment's largest single customer, built more airplanes in 1999, but fewer widebody, twin-aisle versions that utilize more Crane products. The resulting drop in sales to Boeing was greater than expected. So, too, was a decline in sales of provisioning spares, normally purchased by aircraft operators when new models go into service. ELDEC, which provides power supplies and proximity systems for Boeing and other airframe manufacturers, had lower sales of replacement parts because of improved reliability of its products, coupled with customers' more sophisticated purchasing and inventory control.

In a major strategic move, the segment's four companies — ELDEC, Hydro-Aire, Interpoint and Lear Romec — formally became part of Crane Aerospace in August. The combination provides critical mass in dealing with OEMs and airlines and, through integrating products, can significantly expand Crane's product/system offerings. At the new Crane Aerospace Technology Center, located in Lynnwood, Washington, Hydro-Aire and ELDEC are working on a weight-saving integrated brake control product.

Three of the companies — Lear Romec was the exception — had lower sales, and all four had lower operating profit. The companies reacted quickly to the downturn with aggressive cost-cutting, staff reductions, and process improvements. At ELDEC, a quick-response version of lean manufacturing techniques cut cycle times by 20% and halved the volume of work-in-process. Six Sigma projects focused on eliminating unnecessary work from the production process. Hydro-Aire reduced costs through Six Sigma projects, work force reductions, long-term supplier agreements and process reengineering. A focused factory production approach boosted on-time deliveries to well over 90%.

Business Unit	Products	Markets Served
<b>ELDEC</b>	Position indication and control systems,proximity sensors,pressure sensors,mass fuel flowmeters,power conversion systems and equipment	Commercial, business and military aerospace, defense, electronics,and telecommunications
<b>Hydro-Aire</b>	Aircraft brake control and anti-skid systems,including electro-hydraulic servo valves and manifolds,embedded software and redundant, rugged electronic controls, hydraulic control valves and landing gear sensors,fuel pumps	Commercial transport, business and commuter, general aviation,military and government aerospace, repair and overhaul
<b>Lear Romec</b>	Lubrication and fuel pumps for aircraft,aircraft engines and radar cooling systems	Commercial and military aerospace, defense industry
<b>Interpoint</b>	Standard and custom miniature (hybrid) DC-to-DC power converters and custom miniature (hybrid) electronic circuits	Commercial,space and military aerospace, defense industry, medical industries including implantable medical devices and industrial markets

Interpoint imposed spending cuts and work force reductions as sales and bookings fell sharply, reflecting lower aerospace business, the loss of a key medical product program, and the residual effects of the company's production problems in 1997. Interpoint's strong 1998 sales and earnings reflected its success in cleaning up delinquent backlog,making for a difficult comparison with 1999.

Lear Romec had a solid gain in sales of its fuel, lube and scavenge pumps, but slightly lower operating profit and margin, reflecting higher manufacturing costs.The company sells to aircraft engine makers and also to airframe manufacturers, such as Boeing, Airbus,Bombardier, Embraer, Learjet and Cessna.

Aggressive sales and new-product initiatives had a positive impact in 1999. ELDEC, the market leader in aircraft proximity sensing systems and power supplies,was chosen to equip the new Embraer 70 and 90 regional jets.Its new battery charging system is being installed in all new Boeing aircraft except the 777 and retro-fitted by many airlines. ELDEC also became the exclusive supplier to the Displays and Controls Division of Britain's Smiths Industries for high- and low-voltage power supplies for commercial and military aircraft avionics systems.

Hydro-Aire, the world leader in aircraft anti-skid brake control systems, recorded solid gains in general aviation and repair and overhaul sales,despite lower overall OEM and aftermarket sales. It won all four of the new jet aircraft contracts for which it competed,including the Bombardier 100 and Cessna 525 business jets,and the Embraer 140 and 170/190 regional jet families.

Interpoint is focusing its microelectronic product development efforts on medical markets, which are expected to grow 17% annually through 2006, and on custom and aerospace applications, including higher-voltage input/lower-voltage output power converters.

#### Outlook

Crane Aerospace sales and operating profit are likely to decline further in 2000, but the segment will remain Crane's largest profit contributor.Sales to regional and business jet OEMs and,in ELDEC's case, to Airbus,will partially offset lower sales to Boeing,particularly at Hydro-Aire and ELDEC, reflecting Boeing's lower aircraft build-rates. Operating margins will remain strong. Interpoint's sales and profits are projected to fall below 1999 levels, but margins should gradually improve. Lear Romec expects flat sales and slightly lower operating profit for 2000.

## Fluid Handling

### Fluid Handling Reports a Small Profit After Special Charges

(dollars in millions)	1999	1998
Sales	\$502.2	\$557.8
Operating Profit	22.9*	35.0
Operating Margins	4.6%	6.3%

\*Before special charges of \$18.9 million.

Sales and operating profit dropped significantly in Crane's Fluid Handling business. Before special charges of \$18.9 million, operating profit totaled \$22.9 million, or 4.6% of sales, compared with \$35 million, or 6.3% of sales, in 1998. After special charges, operating profit was \$4 million for the year. Order backlog at December 31, 1999, was \$79 million, down \$5 million from the prior year.

Fluid Handling results in 1999 were severely impacted by weak demand from the oil and gas industry and Asian markets. Engineered and commercial valve shipments declined 29% and 20%, respectively, and the pump/water treatment business operating margin declined to 8.5% of sales compared with 11.3% in 1998 because of exceptional workers' compensation, medical and product warranty expenses. On the positive side, operating profit in the Valve Services business and Crane Supply were up 45% and 13%, respectively, on higher revenue.

To address the business downturn, actions were taken in the third and fourth quarters to reduce significantly the fixed cost structure of Fluid Handling businesses. These actions included closure of four manufacturing facilities and five peripheral facilities, staff reductions, and product line rationalizations. The cost of these actions totaled \$18.9 million, comprising \$6.1 million in cash expenditures and \$12.8 million in non-cash asset write-downs. Annual savings are expected to total \$13.4 million.

The global weakness in the oil and gas industry, including key North Sea and Asian markets, severely curtailed sales of engineered valves, which are designed for specific applications or customers. Although this market is expected to improve in 2000 with the increase in oil and gas prices, two manufacturing facilities were closed in 1999 to reduce fixed costs related to this specific market, and staffing levels were reduced by 239 people, or 27%, since the beginning of the year.

New products introduced in 1999 should enhance results in engineered valves in 2000. These products include a triple offset rotary valve for high-pressure, high-temperature applications in power plants and hydrocarbon production, and two series of butterfly valves for the food and beverage and industrial markets. Introduction of a complete line of pneumatic and electrical actuators to automate valve operations moved Crane into a market it had not previously served.

The Valve Services business, now encompassing nuclear power plant and out-of-production industrial valves and parts, plus testing products and nuclear and commercial services, gained in sales and operating profit on full-year results from the September 1998 acquisition of Liberty Technologies Inc. and increased demand for nuclear services and testing products. Sales were up 37% in 1999 to \$49.1 million, and operating margins improved to 11.1% of sales from 10.5% in 1998.

Commercial valve shipments were down \$31 million (20%) from the prior year level, and the business operated at a loss because of market weakness in North America and England stemming from industry overcapacity.

To address these issues, Crane consolidated its cast steel manufacturing facility in Rogers, Arkansas, into its Washington, Iowa, plant and closed a small manufacturing facility in the U.K., and two peripheral facilities. In addition, staffing levels have been reduced by over 400 people, 30% of the work force, since the beginning of the year.

Business Unit	Products	Markets Served
Engineered Valves	Quarter turn, wafer check, pressure seal, HF acid, cast and stainless steel valves	Hydrocarbon and chemical processing, power generation, marine and shipbuilding, commercial building and industrial applications
Commercial Valves	Bronze and iron gate, globe, check, ball and butterfly, cast and stainless steel valves	Commercial building, HVAC, refining and chemical processing
Valve Services	Nuclear valves and diagnostic services, service centers, nuclear services, industrial services	Nuclear power; hydrocarbon, chemical processing and power generation industries
Pumps/Water Treatment	Submersible, sealed and sealless horizontal centrifugal, turbine, air-operated diaphragm, metering pumps and pumping systems, water and wastewater treatment units and systems	Municipal, residential, industrial, utility, construction, pharmaceutical, pulp and paper; chemical and hydrocarbon processing and commercial markets, original equipment manufacturers (OEMs) and government contractors
Crane Supply	Distributor of pipe, valves and fittings	Mechanical contractors, industrial plants, fabricators and engineering procurement and construction companies and maintenance, repair and overhaul (MRO)

Crane Pumps & Systems' operating profit dropped on slightly lower volume, a less favorable product mix and the combination of price/cost pressures in 1999 versus 1998. Results in 2000 should benefit from Six Sigma cost-reduction projects, lean manufacturing techniques, global sourcing, and aggressive sales initiatives. Cochrane completed the integration of its 1998 acquisition of Environmental Products, a global supplier of reverse osmosis systems, and strengthened its focus on energy-related water purification applications. Volume declined for the year, but sales and operating profit began to rebound in the second half.

Crane Supply reported a modest gain in sales and a larger increase in operating profit in a flat market for the pipes, valves and fittings it distributes across Canada. Strong sales in Quebec and Atlantic Canada offset a drop in oil and gas business in Western Canada. Six Sigma projects reduced costs and led to the MRO (Maintenance, Repair and Overhaul) initiative, in which the company has leveraged its inventory control expertise by contracting to procure and manage customers' inventories of maintenance products.

#### Outlook

Improving oil and gas markets, a strong power generation market, accelerating economic recovery in Asia and operating improvements in fixed cost structure should assure solid profitability in 2000. Overall sales are expected to be in line with the 1999 level, with gains at Crane Supply and the pump businesses, flat sales at engineered valves, and a slight decline in the commercial valve business, largely caused by Crane's policy of not accepting unprofitable business.

## Controls

### Controls Sales, Operating Profit Dip

(dollars in millions)	1999	1998
Sales	\$121.2	\$132.3
Operating Profit	4.1*	8.9
Operating Margins	3.4%	6.7%

\*Before special charges of \$3.4 million.

Sales declined 8% in the Controls segment in 1999 on widespread market weakness, particularly in the oil and gas sector. Operating profit margins fell to 3.4% of sales before special charges of \$3.4 million, compared with 6.7% in 1998. After special charges, operating profit was \$.7 million for the year. Order backlog at December 31, 1999, was \$28 million, a slight improvement from the prior year level.

The special charges of \$3.4 million taken in the third and fourth quarters of 1999 included costs to close the Ferguson manufacturing facility in Greenwood, Mississippi, to reduce staffing levels, and to rationalize inventory.

Two companies had solid earnings performances despite lower sales. Sales declined slightly at Barksdale, the segment's largest business, but operating profit rose 12%. Powers Process Controls also saw sales decline, but operating profit rose 16%. Addition of the Beta controls line from the Liberty Technologies acquisition in September 1998 increased Dynalco's sales, but integration costs and costs related to a new enterprise resource planning (ERP) system reduced operating profit. Ferguson's shipments declined 17%, and it operated at a loss for the year. Bookings and backlog increased at Azonix, but the company experienced a slight loss for the year on lower sales, reflecting the depressed oil and gas market.

At Barksdale, 1999 was a transition year marked by new leadership and successful implementation of ERP systems in the U.S. and Germany. The new systems, along with lean manufacturing techniques and Six Sigma projects undertaken in 1999, should improve customer service and help strengthen margins in 2000. Weakness in the oil and gas industry hurt sales of Barksdale's blowout-preventer controls for oil exploration and production equipment, but an upturn is now expected. Barksdale's ride-leveling air suspension valves enjoyed increasing use among U.S. heavy truck OEMs and sparked interest from trailer manufacturers. A new electronic pressure switch was well received in Germany, Italy and France, and Barksdale hopes to expand by designing new products for a broader market rather than specific customers.

Ferguson's U.S. and European businesses faced weak capital markets for their indexers and other custom-engineered, precision motion control products in 1999. In Europe, new leadership and a reorganized management team took hold, and a new ERP system was implemented. In the U.S., Ferguson reduced its work force early in 1999 and began consolidating all domestic production in St. Louis, Missouri, using lean manufacturing techniques, and began the closure of its Greenwood, Mississippi, manufacturing facility.

Powers Process Controls turned in a solid operating profit gain despite a sales decline stemming largely from earlier management and operating problems. These problems impeded Powers' ability to take full advantage of a strong Canadian commercial plumbing market — particularly hospital and health care facility construction — at a time when its industrial process controls markets were flat and price competition in the thermostatic shower controls market was intensifying. Powers has launched initiatives to reduce the cost of its thermostatic valves. The company expects sales and operating profit to grow modestly in 2000.

Azonix, known for its MMI (man-machine interface) hardware and software products for hazardous environments, such as oil drilling rigs, diversified into harsh environment applications in 1999. Timing, however, led to a decline in revenue and a loss for the year as initial penetration of the harsh market did not offset the decline in the hazardous market. Azonix expects much improved results in 2000 from an oil and gas upturn and from increased penetration of the much broader harsh environment market.

A fall-off in revenue from gas transmission markets, new product integration costs, and costs related to a new ERP system depressed Dyalco's 1999 profits, despite the addition of the Beta product line from the Liberty Technologies acquisition in 1998. The company reduced product costs throughout the year, and launched two initiatives aimed at expanding its sales. One extends coverage in the market for engine controls, sensors, analyzers and other instruments by establishing additional regional sales and service offices, with two scheduled for the coming year. The other initiative is to pursue automation solutions with oil and gas customers that traditionally buy its monitoring and control packages. With oil and gas bookings and shipments rising in the year's final four months, Dyalco expects improved results in 2000.

### Outlook

All businesses in the segment anticipate improved sales and earnings in 2000, largely the result of determined cost-reduction efforts, new marketing or product development initiatives, and a resurgence in the oil and gas markets.

Management's Discussion and Analysis of Operations continues on page 30.

Business Unit	Products	Markets Served
<b>Barksdale</b>	Solid state and electromechanical pressure switches and transducers, level switches and indicators, temperature switches and directional control valves	Manufacturers of compressors, machine tools, trucks, oil and gas exploration, compactors, and bailers
<b>Powers Process Controls</b>	Thermal shock protection shower valves and systems, process control valves and instruments and temperature control regulators	Light commercial and institutional facilities, chemical and food processing, pharmaceutical manufacturing and water and wastewater treatment
<b>Dyalco Controls</b>	Rotational speed sensors, instruments and monitors, microprocessor-based engine controls, engine and compressor analyzers, machinery controls	Industrial engine manufacturers and users, oil and gas industry, utilities, construction and agricultural equipment manufacturers
<b>Azonix</b>	Operator interfaces and measurement and control systems, intelligent data acquisition products, high-precision thermometers and calibrators	Oil and gas service, petrochemical, pharmaceutical, primary metal processing, compressor manufacturers, rail transport, semiconductor production equipment, military ship control
<b>Ferguson</b>	Mechanical and electronic index drives, pick-and-place robots, indexing conveyors, rotary tables, clutches and custom cams	Assembly, packaging, processing and metal working machinery manufacturers for the automotive, electrical, food, health care, and electronics industries

## Consolidated Statements of Income

For Years Ended December 31, (in thousands except per share data)	1999	1998	1997
<b>Net Sales</b>	<b>\$ 1,553,657</b>	\$ 1,561,055	\$ 1,411,328
<b>Operating Costs and Expenses:</b>			
Cost of sales	1,052,756 <sup>(b)</sup>	1,017,648	933,951
Selling, general and administrative	270,067 <sup>(c)</sup>	275,573	249,627
Depreciation and amortization	61,280	55,873	50,991
	<b>1,384,103</b>	1,349,094	1,234,569
<b>Operating Profit</b>	<b>169,554<sup>(a)</sup></b>	211,961	176,759
<b>Other Income (Expense):</b>			
Interest income	9,750	9,496	7,354
Interest expense	(27,854)	(27,661)	(23,632)
Miscellaneous — net	4,345	(1,007)	541
	<b>(13,759)</b>	(19,172)	(15,737)
<b>Income Before Taxes</b>	<b>155,795<sup>(a)</sup></b>	192,789	161,022
<b>Provision for Income Taxes</b>	<b>54,897</b>	67,947	57,306
<b>Income from Continuing Operations</b>	<b>100,898<sup>(a)</sup></b>	124,842	103,716
<b>Income from Discontinued Operations, Net of Taxes</b>	<b>13,672</b>	13,596	9,055
<b>Net Income</b>	<b>\$ 114,570<sup>(a)</sup></b>	\$ 138,438	\$ 112,771
<b>Basic Net Income per Share:</b>			
Income from Continuing Operations	\$ 1.51 <sup>(a)</sup>	\$ 1.82	\$ 1.51
Income from Discontinued Operations	.20	.20	.13
<b>Net Income</b>	<b>\$ 1.71<sup>(a)</sup></b>	\$ 2.02	\$ 1.64
Average Basic Shares Outstanding	<b>66,981</b>	68,555	68,565
<b>Diluted Net Income per Share:</b>			
Income from Continuing Operations	\$ 1.50 <sup>(a)</sup>	\$ 1.80	\$ 1.50
Income from Discontinued Operations	.20	.20	.13
<b>Net Income</b>	<b>\$ 1.70<sup>(a)</sup></b>	\$ 2.00	\$ 1.63
Average Diluted Shares Outstanding	<b>67,460</b>	69,368	69,384

(a) Includes pre-tax special charges of \$34,987 (\$22,567 after tax or \$.33 per diluted share.)

(b) Includes special charges of \$32,013.

(c) Includes special charges of \$2,974.

See Notes to Consolidated Financial Statements

## Consolidated Balance Sheets

Balance at December 31,(in thousands except share data)	1999	1998
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,245	\$ 16,195
Accounts receivable	206,468	236,217
Inventories		
Finished goods	107,006	109,135
Finished parts and subassemblies	57,667	58,643
Work in process	23,471	36,571
Raw materials	71,330	82,865
Total inventories	259,474	287,214
Net assets of discontinued operations	—	120,660
Other current assets	35,973	44,830
<b>Total Current Assets</b>	<b>505,160</b>	<b>705,116</b>
<b>Property, Plant and Equipment at Cost:</b>		
Land	29,033	29,631
Buildings and improvements	124,220	132,062
Machinery and equipment	426,010	412,637
Gross property, plant and equipment	579,263	574,330
Less accumulated depreciation	322,614	304,069
<b>Net Property, Plant and Equipment</b>	<b>256,649</b>	<b>270,261</b>
<b>Other Assets</b>	<b>40,521</b>	<b>32,661</b>
<b>Intangibles</b>	<b>43,796</b>	<b>47,372</b>
<b>Cost in Excess of Net Assets Acquired</b>	<b>329,321</b>	<b>324,321</b>
	<b>\$1,175,447</b>	<b>\$1,379,731</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 385	\$ 468
Loans payable	13,271	50,401
Accounts payable	87,611	87,664
Accrued liabilities	116,098	129,796
U.S.and foreign taxes on income	16,150	16,967
<b>Total Current Liabilities</b>	<b>233,515</b>	<b>285,296</b>
<b>Long-Term Debt</b>	<b>286,772</b>	<b>357,710</b>
<b>Other Liabilities</b>	<b>25,927</b>	<b>27,735</b>
<b>Accrued Postretirement Benefits</b>	<b>31,709</b>	<b>33,512</b>
<b>Accrued Pension Liabilities</b>	<b>3,548</b>	<b>5,955</b>
<b>Deferred Income Taxes</b>	<b>25,866</b>	<b>26,289</b>
<b>Preferred Shares,par value \$.01;5,000,000 shares authorized</b>	<b>—</b>	<b>—</b>
<b>Common Shareholders' Equity:</b>		
Common shares,par value \$1.00;Authorized:200,000,000 shares;Issued:72,426,139 shares; Outstanding:62,802,471 shares (68,495,894 in 1998) after deducting 9,623,668 shares in treasury (3,930,245 in 1998).	72,426	72,426
Capital surplus	98,289	96,262
Retained earnings	623,421	574,797
Accumulated other comprehensive income (loss)	(22,481)	(18,036)
Common shares held in treasury	(203,545)	(82,215)
<b>Total Common Shareholders' Equity</b>	<b>568,110</b>	<b>643,234</b>
	<b>\$1,175,447</b>	<b>\$1,379,731</b>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Cash Flows

For Years Ended December 31,(in thousands)	1999	1998	1997
<b>Operating Activities:</b>			
Income from continuing operations	\$ 100,898	\$ 124,842	\$103,716
Non-cash special charges	16,765	—	—
Depreciation	37,250	35,024	33,623
Amortization	24,030	20,849	17,368
Deferred income taxes	6,489	4,412	5,355
Cash provided from (used for) operating working capital	36,678	(8,129)	(27,650)
Other	(11,406)	(4,279)	(5,521)
<b>Total Provided from Operating Activities</b>	<b>210,704</b>	<b>172,719</b>	<b>126,891</b>
<b>Investing Activities:</b>			
Capital expenditures	(28,988)	(48,743)	(37,301)
Proceeds from disposition of capital assets	6,253	8,013	4,389
Purchase of equity investments	(2,029)	(750)	—
Sale of equity investments	5,361	—	—
Payments for acquisitions,net of cash and liabilities assumed of \$7,004 in 1999, \$13,725 in 1998,and \$33,537 in 1997	(32,760)	(177,512)	(69,615)
Proceeds from divestitures	6,881	4,276	7,453
<b>Total Used for Investing Activities</b>	<b>(45,282)</b>	<b>(214,716)</b>	<b>(95,074)</b>
<b>Financing Activities:</b>			
<b>Equity:</b>			
Dividends paid	(26,704)	(25,199)	(22,870)
Reacquisition of shares — open market	(124,024)	(11,329)	(20,529)
Reacquisition of shares — stock incentive program	(780)	(10,895)	(4,448)
Stock options exercised	6,191	9,250	7,382
	(145,317)	(38,173)	(40,465)
<b>Debt:</b>			
Issuance of long-term debt	181,200	143,565	—
Repayments of long-term debt	(265,114)	(5,317)	(3,071)
Net increase (decrease) in short-term debt	(23,594)	(19,929)	1,099
	(107,508)	118,319	(1,972)
<b>Total (Used for) Provided from Financing Activities</b>	<b>(252,825)</b>	<b>80,146</b>	<b>(42,437)</b>
Cash Provided from (Used for) Discontinued Operations	75,091	(31,381)	7,223
Effect of exchange rate on cash and cash equivalents	(638)	905	(1,440)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(12,950)</b>	<b>7,673</b>	<b>(4,837)</b>
Cash and cash equivalents at beginning of year	16,195	8,522	13,359
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 3,245</b>	<b>\$ 16,195</b>	<b>\$ 8,522</b>
<b>Detail of Cash Provided from (Used for) Operating Working Capital (Net of Effects of Acquisitions):</b>			
Accounts receivable	\$ 31,934	\$ 276	\$(23,616)
Inventories	17,335	(11,266)	(7,821)
Other current assets	8,283	(5,129)	1,992
Accounts payable	(5,688)	(3,694)	5,504
Accrued liabilities	(14,551)	6,449	2,849
U.S.and foreign taxes on income	(635)	5,235	(6,558)
<b>Total</b>	<b>\$ 36,678</b>	<b>\$ (8,129)</b>	<b>\$(27,650)</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Interest paid	\$ 28,726	\$ 25,142	\$ 22,865
Income taxes paid	\$ 54,825	\$ 63,358	\$ 54,842

See Notes to Consolidated Financial Statements

## Consolidated Statements of Changes in Common Shareholders' Equity

(in thousands except share data)	Common Shares Issued at Par Value	Capital Surplus	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost	Total Common Shareholders' Equity
<b>At January 1, 1997</b>	<b>\$72,426</b>	<b>\$86,083</b>	<b>\$371,702</b>		<b>\$(7,368)</b>	<b>\$(60,174)</b>	<b>\$462,669</b>
Net income			112,771	\$112,771			112,771
Cash dividends			(22,870)				(22,870)
Reacquisition of 981,455 shares						(24,977)	(24,977)
Exercise of stock options, 652,523 shares						7,382	7,382
Tax benefit-exercise of stock options		3,541					3,541
Restricted stock awarded, 151,873 shares, net			(921)			4,131	3,210
Currency translation adjustment				(9,182)	(9,182)		(9,182)
Comprehensive income				103,589			
<b>Balance December 31, 1997</b>	<b>72,426</b>	<b>89,624</b>	<b>460,682</b>		<b>(16,550)</b>	<b>(73,638)</b>	<b>532,544</b>
Net income			138,438	138,438			138,438
Cash dividends			(25,199)				(25,199)
Reacquisition of 702,276 shares						(22,224)	(22,224)
Exercise of stock options, 780,902 shares						9,250	9,250
Tax benefit-exercise of stock options		6,638					6,638
Restricted stock awarded, 104,787 shares, net			876			4,397	5,273
Currency translation adjustment				(1,486)	(1,486)		(1,486)
Comprehensive income				136,952			
<b>Balance December 31, 1998</b>	<b>72,426</b>	<b>96,262</b>	<b>574,797</b>		<b>(18,036)</b>	<b>(82,215)</b>	<b>643,234</b>
Net income			114,570	114,570			114,570
Dividend of Huttig shares			(42,382)				(42,382)
Cash dividends			(26,704)				(26,704)
Reacquisition of 6,063,254 shares						(126,469)	(126,469)
Exercise of stock options 419,914 shares						6,191	6,191
Tax benefit-exercise of stock options		2,027					2,027
Restricted stock forfeited, 50,083 shares, net			3,140			(1,052)	2,088
Currency translation adjustment				(4,445)	(4,445)		(4,445)
Comprehensive income				110,125			
<b>Balance December 31, 1999</b>	<b>\$72,426</b>	<b>\$98,289</b>	<b>\$623,421</b>		<b>\$(22,481)</b>	<b>\$(203,545)</b>	<b>\$568,110</b>

See Notes to Consolidated Financial Statements.

## Notes To Consolidated Financial Statements

### Accounting Policies

**Principles of Consolidation** — The consolidated financial statements include all majority-owned subsidiaries. Prior year amounts have been restated to reflect the distribution of Huttig Building Products, Inc. to shareholders on December 16, 1999. Prior year amounts have been reclassified to conform to this treatment. Investments in affiliates over which Crane exercises significant influence but which it does not control (generally 20% to 50% ownership) are accounted for under the equity method. All intercompany items have been eliminated. All share and per share data have been retroactively restated to reflect the three-for-two split of common stock effected in the form of a 50% stock dividend in 1998.

**General** — The company's financial statements are prepared in conformity with generally accepted accounting principles. These require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimated. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period in which they are determined to be necessary.

**Revenue Recognition** — Revenues are recorded generally when title passes to the customer.

**Income Taxes** — Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes using currently enacted tax rates.

**Net Income Per Share** — The company's basic earnings per share calculations are based on the weighted average number of common shares outstanding. Diluted earnings per share include all stock options. The company has no stock warrants or convertible securities.

(In thousands, except per share data)	1999	1998	1997
Income from continuing operations	\$ 100,898	\$ 124,842	\$ 103,716
Income from discontinued operations	13,672	13,596	9,055
Net income	\$ 114,570(a)	\$ 138,438	\$ 112,771
Average basic shares outstanding	66,981	68,555	68,565
Effect of dilutive stock options	479	813	819
Average diluted shares outstanding	67,460	69,368	69,384
Basic Net Income Per Share:			
Income from continuing operations	\$ 1.51	\$ 1.82	\$ 1.51
Income from discontinued operations	.20	.20	.13
Net Income	\$ 1.71(a)	\$ 2.02	\$ 1.64
Diluted Net Income Per Share:			
Income from continuing operations	\$ 1.50	\$ 1.80	\$ 1.50
Income from discontinued operations	.20	.20	.13
Net Income	\$ 1.70(a)	\$ 2.00	\$ 1.63

(a) Includes pre-tax special charges of \$34,987 (\$22,567 after taxes or \$.33 per diluted share.)

**Cash and Cash Equivalents** — Marketable securities with original maturities of three months or less are considered to be cash equivalents.

**Accounts Receivable** — Receivables are carried at net realizable value.

A summary of the allowance for doubtful accounts, cash discounts, returns and allowances activity at December 31, follows:

(in thousands) for years ended December 31,	1999	1998	1997
Balance at beginning of year	\$ 6,199	\$ 5,636	\$ 5,805
Provisions	5,928	2,665	4,356
Deductions	(5,054)	(2,102)	(4,525)
Balance at end of year	\$ 7,073	\$ 6,199	\$ 5,636

**Inventories** — Inventories are stated at the lower of cost or market principally on the last-in, first-out (LIFO) method of inventory valuation. The reduction of inventory quantities has resulted in a liquidation of LIFO inventories acquired at lower costs prevailing in prior years. Liquidations have reduced cost of sales by \$2.7 million in 1999 and \$.6 million in 1998 and 1997. Replacement cost would have been higher by \$23.1 million and \$27.5 million at December 31, 1999 and 1998, respectively.

**Property, Plant and Equipment** — Depreciation is provided primarily by the straight-line method over the estimated useful lives of the respective assets, which range from three to twenty-five years.

**Intangibles** — Intangible assets are being amortized on a straight-line basis over their estimated useful lives, which range from five to twenty years. The accumulated amortization was \$22 million and \$18.6 million at December 31, 1999 and 1998, respectively.

**Cost in Excess of Net Assets Acquired** — Cost in excess of net assets acquired is being amortized on a straight-line basis ranging from fifteen to forty years. The accumulated amortization was \$60.1 million and \$44.6 million at December 31, 1999 and 1998, respectively.

**Valuation of Long-Lived Assets** — The company periodically evaluates the carrying value of long-lived assets, including goodwill and other intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

**Stock-Based Compensation Plans** — The company records compensation expense for its stock-based employee compensation plans in accordance with the intrinsic-value method prescribed by APB No. 25, "Accounting for Stock Issued to Employees." Intrinsic value is the amount by which the market price of the underlying stock exceeds the exercise price of the stock option or award on the measurement date, generally the date of grant.

**Currency Translation** — Assets and liabilities of subsidiaries that prepare financial statements in currencies other than U.S. dollars are translated at the rate of exchange in effect on the balance sheet date; results of operations are translated at the average rates of exchange prevailing during the year. The related translation adjustments are included in accumulated other comprehensive income (loss) in a separate component of shareholders' equity.

**Financial Instruments** — The company periodically enters into interest rate swap agreements to moderate its exposure to interest rate changes and to lower the overall cost of borrowings. The differential to be paid or received is accrued as interest rates change and is recognized in income over the life of the agreements. No agreements were outstanding at December 31, 1999 and 1998. In addition, the company periodically uses forward foreign exchange contracts to hedge firm purchase and sales commitments. Gains and losses on such contracts are deferred and recognized as part of the related transactions. Amounts outstanding at December 31, 1999 and 1998 for such contracts were not material.

**Recently Issued Accounting Standards** — The company is required to implement the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" in the first quarter of fiscal 2001. The company has historically made limited use of derivative instruments and financial hedges and believes any impact of the new accounting pronouncement on the financial statements will be immaterial.

### Special Charges

The pre-tax special charges in 1999 of \$35.0 million (\$18.4 million in the third quarter and \$16.6 million recorded in the fourth quarter) were principally for a series of actions to reduce the fixed cost base in the Engineered Materials, Aerospace, Fluid Handling and Controls segments by closing or consolidating facilities, reducing staff, rationalizing product lines and for other unusual items. In total, five manufacturing facilities have been or are in the process of being closed, along with eight peripheral facilities. The facility closings are expected to be completed during 2000. Severance costs have been recognized in connection with the involuntary termination of 550 employees, of whom 380 were terminated prior to December 31, 1999, and 170 will be terminated in the first half of 2000. No additional special charges are expected in 2000.

A summary of the special charges and the liability balance (in thousands) at December 31, 1999, is as follows:

Description	Total	Deductions	Liability Balance at December 31, 1999
Severance costs	\$ 6,258	\$4,931	\$1,327
Facility closure costs	3,553	1,858	1,695
Product liability costs	7,347	469	6,878
Other items	1,064	1,006	58
Total cash	\$18,222	\$8,264	\$9,958
Inventory markdowns	12,248		
Asset impairments and disposals	4,517		
Total non-cash	16,765		
Total	\$34,987		

### Research and Development

Research and development and engineering costs were approximately \$58.9 million, \$70.9 million and \$56.3 million in 1999, 1998, and 1997, respectively. Included in these amounts were approximately \$7.4 million, \$15.8 million and \$9.6 million received in 1999, 1998 and 1997, respectively, for customer-sponsored research and development.

## Discontinued Operations

On December 6, 1999, the company's Board of Directors approved the spin-off of its Huttig Building Products ("Huttig" subsidiary) effective December 16, 1999, to shareholders of record as of December 8, 1999. Huttig common shares were distributed on the basis of one share of Huttig for every 4.5 shares of Crane Co common stock. Prior to the spin-off, Huttig transferred \$68 million to the company, which the company used to pay down debt.

The consolidated financial results of the company have been restated to reflect the divestiture of Huttig. Huttig net assets, results of operations and cash contributions to Crane have been reflected in the accompanying financial statements as a discontinued operation.

Summarized financial information for discontinued operations is set forth below:

(in thousands except per share amounts)	1999	1998	1997
Net sales	\$ 760,723	\$ 707,450	\$ 625,503
Income before taxes	21,833 <sup>(a)</sup>	21,851	14,814
Net income	13,672	13,596	9,055
Diluted earnings per share	.20	.20	.13

(a) Includes pension plan curtailment gain of \$7.2 million.

Net assets of discontinued operations at December 31, 1998, were \$121 million, consisting of \$115 million of current assets and \$8 million of other assets, net of third-party liabilities of \$75 million.

## Miscellaneous — Net

(in thousands) for years ended December 31,	1999	1998	1997
Gain on disposition of capital assets	\$ 1,712	\$ 307	\$ 479
Gain on sale of equity investment	2,582	—	—
Other	51	(1,314)	62
	\$ 4,345	\$ (1,007)	\$ 541

## Income Taxes

Income (loss) before taxes is as follows:

(in thousands) for years ended December 31,	1999	1998	1997
U.S. operations	\$ 160,888	\$ 176,030	\$ 142,427
Non-U.S. operations	(5,093)	16,759	18,595
	\$ 155,795	\$ 192,789	\$ 161,022

The provision for income taxes consists of:

(in thousands) for years ended December 31,	1999	1998	1997
<b>Current:</b>			
U.S. federal tax	\$ 41,007	\$ 54,066	\$ 42,313
State and local tax	2,100	3,548	4,322
Non-U.S. tax	5,301	5,921	5,316
	48,408	63,535	51,951
<b>Deferred:</b>			
U.S. federal tax	8,799	3,150	4,599
State and local tax	2,194	386	373
Non-U.S. tax	(4,504)	876	383
	6,489	4,412	5,355
Total income taxes	\$ 54,897	\$ 67,947	\$ 57,306

Reconciliation of the statutory U.S. federal rate to the effective tax rate is as follows:

(in thousands) for years ended December 31,	1999	1998	1997
Statutory U.S. federal tax at 35%	\$ 54,528	\$ 67,476	\$ 56,358
<b>Increase (reduction) from:</b>			
Non-U.S. taxes	2,606	931	(809)
State and local taxes	2,879	2,595	3,121
Non-deductible goodwill	4,836	3,391	2,533
Foreign Sales Corporation	(6,033)	(2,974)	(2,886)
Other	(3,919)	(3,472)	(1,011)
Provision for income taxes	\$ 54,897	\$ 67,947	\$ 57,306
Effective tax rate	35.2%	35.2%	35.6%

At December 31, 1999, the company had unremitted earnings of foreign subsidiaries of \$93.3 million. Because these earnings, which reflect full provision for non-U.S. income taxes, are indefinitely reinvested in non-U.S. operations or can be remitted substantially free of additional tax, no provision has been made for taxes that might be payable upon remittance of such earnings.

The components of deferred tax assets and liabilities included on the balance sheet at December 31 are as follows:

(in thousands) December 31,	1999	1998
Deferred tax assets:		
Postretirement benefits	\$ 12,333	\$ 13,035
Inventory	5,691	6,848
Insurance	6,259	7,091
Environmental	3,884	3,847
Tax loss and credit carryforwards	8,869	7,395
Deferred compensation	5,684	8,273
Other	15,792	12,776
Total	58,512	59,265
Less valuation allowance on tax loss and credit carryforwards	4,375	3,086
Total deferred tax assets, net	54,137	56,179
Deferred tax liabilities:		
Depreciation	32,329	30,098
Intangibles	12,668	13,675
Pension	9,165	5,599
Total deferred liabilities	54,162	49,372
Net deferred (liability) asset	\$ (25)	\$ 6,807
Balance sheet classification:		
Other current assets	\$ 25,841	\$ 33,096
Deferred income taxes	25,866	26,289
Net deferred (liability) asset	\$ (25)	\$ 6,807

As of December 31, 1999, the company had net operating loss (NOL) carryforwards and U.S. tax credit carryforwards that will expire, if unused, as follows:

(in thousands) year of expiration	Non-U.S. National NOL	U.S. State NOL	U.S. Federal NOL	U.S. R&D Credit
2000-2003	\$ 1,176	\$14,414	\$ 803	\$ 2
After 2003	290	33,615	2,184	615
Indefinite	15,450	—	—	—
<b>Total</b>	<b>\$16,916</b>	<b>\$48,029</b>	<b>\$2,987</b>	<b>\$ 617</b>
Deferred tax asset on tax carryforwards	\$ 5,311	\$ 1,896	\$1,045	\$ 617

Of the total \$8.9 million deferred tax asset on tax carryforwards, \$4.4 million has been offset by the valuation allowance because of the uncertainty of ultimately realizing these future benefits.

### Accrued Liabilities

(in thousands) December 31,	1999	1998
Employee-related expenses	<b>\$ 51,878</b>	\$ 61,352
Insurance	<b>9,202</b>	10,130
Environmental	<b>2,648</b>	4,232
Warranty and product liability	<b>13,473</b>	11,388
Professional fees	<b>2,781</b>	3,265
Sales allowances	<b>7,003</b>	5,196
Customer advanced payments	<b>1,772</b>	3,911
Interest	<b>4,478</b>	5,350
Taxes other than income	<b>3,285</b>	2,616
Pensions	<b>4,859</b>	3,218
Other	<b>14,719</b>	19,138
	<b>\$116,098</b>	\$129,796

### Other Liabilities

(in thousands) December 31,	1999	1998
Environmental	<b>\$ 7,337</b>	\$ 9,605
Insurance	<b>6,893</b>	8,104
Minority interest	<b>2,215</b>	3,669
Other	<b>9,482</b>	6,357
	<b>\$25,927</b>	\$27,735

### Pension and Postretirement Benefits

The company and most of its subsidiaries have defined benefit pension plans for their employees. The company also has a defined benefit plan for its 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 governmental regulations.

Postretirement healthcare and life insurance benefits are provided for certain domestic and non-U.S. employees hired before January 1, 1990, who meet minimum age and service requirements. The company does not pre-fund these benefits and has the right to modify or terminate the plan.

The following table sets forth the amounts recognized in the company's balance sheet at December 31, for company-sponsored defined benefit pension and post-retirement benefit plans:

(in thousands) December 31,	Pension Benefits		Postretirement Benefits	
	1999	1998	1999	1998
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	<b>\$329,032</b>	\$304,725	<b>\$20,390</b>	\$ 21,269
Service cost	<b>12,574</b>	11,062	<b>146</b>	173
Interest cost	<b>20,427</b>	18,860	<b>1,163</b>	1,378
Plan participants' contributions	<b>964</b>	1,509	<b>1,445</b>	1,444
Amendments	<b>1,334</b>	565	<b>(959)</b>	—
Actuarial (gain) loss	<b>(24,813)</b>	6,694	<b>(1,569)</b>	(422)
Benefits paid	<b>(15,837)</b>	(15,297)	<b>(3,619)</b>	(3,452)
Foreign currency exchange rate (gain) loss	<b>(1,072)</b>	(1,636)	<b>—</b>	—
Acquisition/divestitures	<b>(4,717)</b>	2,550	<b>—</b>	—
Benefit obligation at end of year	<b>317,892</b>	329,032	<b>16,997</b>	20,390
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	<b>436,508</b>	416,608		
Actual return on plan assets	<b>26,939</b>	33,788		
Foreign currency exchange rate gain (loss)	<b>(565)</b>	(3,062)		
Employer contributions	<b>1,019</b>	641		
Plan participants' contributions	<b>964</b>	1,509		
Benefits paid	<b>(15,837)</b>	(15,297)		
Acquisition/divestitures	<b>2,086</b>	2,321		
Fair value of plan assets at end of year	<b>451,114</b>	436,508		
Funded status	<b>133,222</b>	107,476	<b>(16,997)</b>	(20,390)
Unrecognized actuarial (gain) loss	<b>(105,194)</b>	(90,225)	<b>(14,712)</b>	(13,122)
Unrecognized prior service cost	<b>1,793</b>	3,145	<b>—</b>	—
Unrecognized transition (asset)/obligation	<b>(4,694)</b>	(4,101)	<b>—</b>	—
Prepaid (accrued) benefit cost	<b>\$ 25,127</b>	\$ 16,295	<b>\$(31,709)</b>	\$(33,512)

Pension Benefits			
(in thousands) December 31,	1999	1998	
Balance sheet classification:			
Other assets	\$29,505	\$22,193	
Accrued liability	1,719	334	
Accrued pension liability	2,659	5,564	
	\$25,127	\$16,295	

(Dollars in thousands)	Pension Benefits			Postretirement Benefits		
	December 31, 1999	1998	1997	1999	1998	1997
Weighted average assumptions as of December 31:						
Discount rate	6.92%	6.68%	6.30%	7.5%	6.75%	7.25%
Expected rate of return on plan assets	8.12%	8.27%	7.91%	—	—	—
Rate of compensation increase	4.53%	4.81%	4.41%	4.5%	4.00%	4.50%
Components of net periodic benefit cost:						
Service cost	\$12,574	\$11,062	\$10,293	\$ 146	\$ 173	\$ 203
Interest cost	20,427	18,860	17,186	1,163	1,378	1,533
Expected rate of return on plan assets	(32,461)	(30,833)	(26,321)	—	—	—
Amortization of prior service cost	(748)	(678)	282	(95)	—	—
Recognized net actuarial loss (gain)	(2,092)	(1,161)	(1,341)	(959)	(958)	(924)
Net periodic benefit cost	\$ (2,300)	\$ (2,750)	\$ 99	\$ 255	\$ 593	\$ 812

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$9.7 million, \$8.8 million, \$7.6 million and \$11.0 million, \$9.9 million and \$8.4 million, as of December 31, 1999 and 1998, respectively.

At December 31, 1999, substantially 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 company participates in several multi-employer pension plans, which provide benefits to certain employees under collective bargaining agreements. Total contributions to these plans were approximately \$1.1 million in 1999, \$1.0 million in 1998 and \$1.1 million in 1997.

Crane subsidiaries ELDEC Corporation and Interpoint Corporation have a money purchase plan to provide retirement benefits for all eligible employees. The annual contribution is 5% of each eligible participant's gross compensation. The contributions for 1999, 1998 and 1997 were \$2.5 million, \$2.2 million and \$1.7 million, respectively.

The company and its subsidiaries sponsor savings and investment plans that are available to eligible employees of the company and its subsidiaries. The company made contributions to the plans of approximately \$5.4 million, \$4.7 million and \$3.7 million in 1999, 1998 and 1997, respectively.

For the purpose of estimating the postretirement liability, the cost of covered benefits was assumed to increase 7.7% for 1999, and then to decrease gradually to 5.0% by 2005 and remain at that level thereafter. In 1998, the cost of covered benefits was assumed to increase 8.5%, and then to decrease gradually to 4.75% by 2005 and remain at that level thereafter:

(in thousands)	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	\$ 152	\$ 133
Effect on postretirement benefit obligation	1,444	1,275

#### Short-Term Financing

The weighted average interest rate for loans payable, consisting of short-term bank borrowings of \$13.3 million and \$50.4 million at December 31, 1999 and 1998, was 5.9% and 6.4%, respectively. As of December 31, 1999, the company had unused domestic lines of credit totaling \$150.0 million and unused foreign lines of credit totaling \$48.9 million. These lines of credit are typically available for borrowings up to 364 days and are renewable at the option of the lender. Short-term obligations of \$46.8 million at December 31, 1999, and \$150 million at December 31, 1998, were classified as long-term debt because the company had entered into finance agreements that permit it to refinance short-term obligations on a long-term basis.

## Long-Term Financing

(in thousands) December 31,	1999	1998
<b>Crane Co.</b>		
Senior debt:		
7.25% notes due 1999	\$ —	\$150,000
Original issue discount	—	(29)
Deferred financing costs	—	(205)
	—	149,766
8.50% notes due 2004	100,000	100,000
Original issue discount	(352)	(436)
Deferred financing costs	(290)	(358)
	99,358	99,206
6.75% notes due 2006	100,000	100,000
Original issue discount	(253)	(290)
Deferred financing costs	(849)	(998)
	98,898	98,712
6.68% Other debt — due 2003	66,800	—
Deferred financing costs	(88)	—
	66,712	—
<b>Total Crane Co.</b>	<b>264,968</b>	<b>347,684</b>
<b>Subsidiaries</b>		
Industrial revenue bonds	1,485	1,677
Various loans — 6.0% average rate	20,704	8,817
<b>Total Subsidiaries</b>	<b>22,189</b>	<b>10,494</b>
Total long-term debt	287,157	358,178
Less current portion	385	468
Long-term debt, net of current portion	\$286,772	\$357,710

At December 31, 1999, the principal amounts of long-term debt repayments required for the next five years are \$4 million in 2000, \$7.2 million in 2001, \$8 million in 2002, \$66.8 million in 2003, and \$113.8 million in 2004.

At December 31, 1999, the company had a \$300 million contractually committed long-term bank credit facility under which the company can borrow, repay or, to the extent permitted by the agreement, prepay loans and reborrow at any time prior to the termination date of November 2003. Proceeds may be used for general corporate purposes or to provide financing for acquisitions. The agreement contains certain covenants, including limitations on indebtedness and liens. A loan for \$20 million was outstanding under this agreement at year end. The company has a \$300 million shelf registration filed with the Securities and Exchange Commission, all of which remains unissued.

## Fair Value of Financial Instruments

The carrying value of investments and short-term debt approximates the fair value. Long-term debt rates currently available to the company for debt with similar terms and remaining maturities are used to estimate the fair value for debt issues that are not quoted on an exchange. The estimated fair value of long-term debt at December 31, 1999, was \$285 million compared with a carrying value of \$287 million.

Crane is a party to a contractually committed off-balance sheet chattel paper financing facility that enables its National Vendors operation to offer various sales support financing programs to its customers. Recourse to Crane for all uncollectible loans made to National Vendors' customers by the banks under this agreement is limited.

## Leases

The company leases certain facilities, vehicles and equipment. Future minimum payments, by year, and in the aggregate, under leases with initial or remaining terms of one year or more consist of the following at December 31, 1999:

(in thousands) December 31,	Operating Leases	Minimum Sublease Income	Net
2000	\$ 7,871	\$ 137	\$ 7,734
2001	6,150	112	6,038
2002	4,915	65	4,850
2003	4,071	63	4,008
2004	3,015	63	2,952
Thereafter	3,058	7	3,051
Total minimum lease payments	\$29,080	\$ 447	\$28,633

Rental expense was \$9.7 million, \$9.3 million and \$10.7 million for 1999, 1998 and 1997, respectively.

## Contingencies

The company has established insurance programs to cover product and general liability losses. These programs have deductible amounts of \$5 million per claim, \$10 million aggregate per policy year before coverage begins, with the exception of aircraft products, and non-U.S. claims, which have first-dollar coverage. The company does not deem its deductible exposure to be material.

As of December 31, 1999, the company is involved in various 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 effect on the company's financial condition and results of operations.

The company continues to be involved in various remediation actions to clean up hazardous wastes as required by federal and state laws. Estimated future environmental remediation cost was \$10.0 million at December 31, 1999, which was fully accrued. In certain of these actions, the company is one of several potentially responsible parties ("PRPs"). As a PRP, the company could be liable for all clean-up cost despite the involvement of other PRPs. Given the financial stability of the other PRPs, the company believes this is unlikely and the accrual represents management's best estimate, based on current facts and circumstances, with respect to the ultimate liability that will be apportioned to the company. The company spent \$2.1 million on environmental costs in 1999, and expects to pay remediation costs of approximately \$2.6 million in 2000. The annual level of future remediation expenditures is difficult to estimate because of the many uncertainties relating to conditions of individual sites, as well as uncertainties about the status of environmental laws and regulations and developments in remedial technology. In addition, the company is a minor/de minimis potentially responsible party (PRP) at certain third-party environmental remediation sites where remediation obligations are joint and several, and the company, as part of its estimate of potential liability, periodically reviews whether the major PRPs have the ability to fulfill their portion of such remediation obligations. The company is not aware of any significant additional liability that would result from the inability of other PRPs to fulfill their obligations. Overall, the company's liability for the required remedial actions being implemented or engineered is not, individually or in the aggregate, expected to be material.

As of December 31, 1999, Crane Co. was a defendant (among a number of defendants, typically 15 to 40) in approximately 2,400 actions filed in various state and federal courts alleging injury or death as a result of exposure to asbestos in products allegedly manufactured or sold by the company. Because of the unique factors inherent in each case and the fact that most are in preliminary stages, the company lacks sufficient information upon which judgements can be made as to their validity or ultimate disposition. Based on the information available to the company and its experience in the disposition of lawsuits of this type, the company believes that pending and reasonably anticipated future asbestos actions are not likely to have a material effect on its results of operations or financial condition.

## Acquisitions, Divestitures and Investments

The company reviews potential acquisition candidates with market and technology positions that provide meaningful opportunities in the markets in which it already has a presence, or which afford significant financial reward, and may dispose of operations when consistent with its overall goals and strategies. In October 1999, the company acquired Stentorfield, Ltd., based in Chippenham, England, for \$32.8 million. Stentorfield is a premier designer and manufacturer of hot and cold beverage vending machines, serving the U.K. and European market with a broad line of full-size and tabletop products, for the hotel, restaurant, office coffee service and vending industries. Stentorfield is known in the industry to provide high quality, reliable and easily serviced products and excellent customer service. This business was integrated with Crane's National Vendors business, which is the leading North American designer and manufacturer of full-line vending machines, for snack, food and beverage.

The acquisition provides the means for National Vendors to satisfy the growing U.K. and European demand for a broader "one-stop" product offering, consisting of Stentorfield's drinks machines and National Vendors' snack and food machines.

During 1998, the company completed four acquisitions at a total cost of \$178 million. In May, the company acquired Environmental Products USA, Inc. This business manufactures membrane-based water treatment systems for industrial, commercial and institutional markets. In August, the company acquired Sequentia Holdings, Inc., a manufacturer of fiberglass-reinforced plastic panels for the construction and building products markets. Sequentia complements the company's Kemlite subsidiary, which provides fiberglass-reinforced plastic panels for the transportation and recreational vehicle markets. In September, the company acquired Liberty Technologies, Inc. which develops, manufactures, markets and sells valve, motor, engine and compression condition monitoring products and related services to the nuclear power generation and industrial process markets worldwide. Liberty complements the company's nuclear valve business, which provides valves, valve diagnostic equipment and related services to the nuclear power industry, and the company's Dyalco Controls business, which provides sensors, instrumentation, control products and automation systems for use in industrial engine applications. Also in the fourth quarter of 1998, the company acquired the Plastic-Lined Piping Products ("PLPP") division of The Dow Chemical Company. PLPP was integrated with the company's Resistoflex division, which supplies lined pipe and valves to the chemical process and industrial markets.

In April 1999, the company sold Southwest Foundry, acquired as part of the Stockham Valves & Fittings, Inc. transaction, for \$4 million. In December 1999, the company sold its Crane Defense Systems business for \$6.4 million in cash and a \$8 million note due in 2002.

In May of 1998, the company sold two foundry operations acquired as part of the Stockham Valves & Fittings, Inc. transaction. Accu-Cast, Inc. in Chattanooga, Tennessee, and the Aliceville Foundry in Aliceville, Alabama, were sold for a total of \$4.3 million.

During 1997, the company completed four acquisitions at a total cost of \$70 million. In March, the company acquired the transportation products business of Sequentia, Inc. This business, which produces fiberglass-reinforced plastic panels for the truck body, trailer and container market, has been integrated with the company's Kemlite subsidiary. Also in March, the company acquired Polyvend Inc., a manufacturer of snack and food vending machines. Polyvend was completely integrated into National Vendors' modern St. Louis facility by the end of the third quarter of 1997, significantly expanding distribution sales channels. In April, the company acquired the Nuclear Valve business of ITI MOVATS from Westinghouse. MOVATS is a leading supplier of valve diagnostic equipment and valve services to the commercial nuclear power industry. In December, the company acquired certain operations and product lines of Stockham Valves & Fittings, Inc. The acquired product lines and related manufacturing operations were integrated into the company's engineered valve and commercial bronze and iron valve businesses.

In 1997, the company sold its Valve Systems and Controls division for \$7.5 million in cash and \$1.5 million in preferred stock.

All acquisitions were accounted for by the purchase method. The results of operations for all acquisitions have been included in the financial statements from their respective dates of purchase.

The following unaudited pro forma financial information presents the combined results of operations of the company and Environmental Products, Sequentia, Liberty Technologies and Plastic-Lined Piping Products as if the acquisitions had taken place at the beginning of 1997. The pro forma amounts give effect to certain adjustments including the amortization of goodwill and intangibles, increased interest expense and income tax effects. This pro forma information does not necessarily reflect the results of operations as they would have been if the businesses had been managed by the company during these periods and is not indicative of results that may be obtained in the future. Pro forma 1998 and 1997 results are as follows: net sales of \$1.64 billion and \$1.55 billion, net income of \$121.2 million and \$97.2 million and diluted net income per share of \$1.75 and \$1.40, respectively.

### Preferred Share Purchase Rights

On June 27, 1998, the company adopted a Shareholder Rights Plan to replace the existing Plan, which expired on that date. 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 payments, voting power, and, in the event of any merger, consolidation or other transaction in which common shares are exchanged, a preferential exchange rate. The rights will remain in existence until June 27, 2008, unless they are earlier terminated, exercised or redeemed. The company has authorized five million shares of \$.01 par value preferred stock of which 500,000 shares have been designated as Series A Junior Participating Preferred Stock.

### Stock-Based Compensation Plans

The company has three stock-based compensation plans: the Stock Option Plan, the Restricted Stock Award Plan and the Non-Employee Director Restricted Stock Plan. In accounting for its stock-based compensation plans, the company applies the intrinsic value method prescribed by APB No. 25, "Accounting for Stock Issued to Employees". Intrinsic value is the amount by which the market price of the underlying stock exceeds the exercise price of the stock option or award on the measurement date, generally the date of grant. No compensation expense is recognized for the company's stock option plan. Compensation expense recognized for its restricted stock award plans was \$2.1 million in 1999, \$5.0 million in 1998, and \$5.2 million in 1997. The pro forma net income and earnings per share listed below reflect the impact of measuring compensation expense for options granted in 1999, 1998 and 1997 in accordance with the fair-value-based method prescribed by SFAS 123, "Accounting for Stock-Based Compensation." These amounts may not be representative of future years' amounts as options vest over a three-year period and, generally, additional awards are made each year.

(in thousands except per share data)		1999	1998	1997
Net income	As reported	<b>\$114,570</b>	\$138,438	\$112,771
	Pro forma	<b>108,340</b>	133,071	110,339
Net income per share				
Basic	As reported	<b>1.71</b>	2.02	1.64
	Pro forma	<b>1.62</b>	1.94	1.61
Diluted	As reported	<b>1.70</b>	2.00	1.63
	Pro forma	<b>1.61</b>	1.92	1.59

The weighted average fair value of options granted was \$5.66 per share in 1999, \$11.01 per share in 1998 and \$6.89 per share in 1997. These estimates were based on the Black-Scholes multiple option-pricing model with the following weighted average assumptions:

	1999	1998	1997
Dividend yield	1.85%	.92%	1.48%
Volatility	25.14%	24.22%	24.98%
Risk-free interest rates	5.07%	5.60%	6.76%
Expected lives in years	5.12	5.29	5.10

Options are granted under the Stock Option Plan to officers and other key employees at an exercise price equal to the fair market value of the shares on the date of grant. Options become exercisable at a rate of 50% the first year, 75% the second year and 100% the third year after the date of grant, and expire ten years after the date of grant. A summary of stock option activity follows:

(Shares in thousands)	Number of Shares	Weighted Average Exercise Price
<b>1997</b>		
Options outstanding at beginning of year	3,597	\$12.45
Granted	871	20.84
Exercised	(709)	10.44
Canceled	(156)	17.58
Options outstanding at end of year	3,603	14.67
Options exercisable at end of year	2,309	12.21
<b>1998</b>		
Granted	1,482	33.44
Exercised	(847)	10.97
Canceled	(28)	23.12
Options outstanding at end of year	4,210	21.95
Options exercisable at end of year	2,184	14.76
<b>1999</b>		
Granted	1,577	21.66
Exercised	(456)	13.59
Canceled	(194)	28.20
Options outstanding at end of year	5,137	22.36
Options exercisable at end of year	2,718	20.11

A summary of information regarding stock options outstanding at December 31, 1999, follows:

(Shares in thousands)	Options Outstanding		Options Exercisable		
	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Range of Exercise Prices					
\$ 25.63-33.54	1,368	8.29	\$33.38	682	\$33.31
17.16-24.62	2,227	8.76	21.38	494	20.73
9.15-16.96	1,542	5.12	13.99	1,542	13.99

The Restricted Stock Award Plan provides for awards of common stock to officers and other key employees, subject to resale restrictions. The restrictions on outstanding awards are scheduled to lapse upon the achievement of certain performance objectives or over time. The company awarded 189,900 shares with a weighted average fair value of \$23.11 in 1999. In addition, 70,884 shares were issued in conjunction with the Huttig spin-off. As of December 31, 1999, there were available for future awards a total of 1,257,966 shares.

Under the Non-Employee Director Restricted Stock Plan, directors who are not full-time employees of the company receive the portion of their annual retainer that exceeds \$15,000 in shares of common stock. The shares are issued each year after the company's annual meeting, are forfeitable if the director ceases to remain a director until the company's next annual meeting, and may not be sold for a period of five years, or until the director leaves the Board. As a group, non-employee directors received 5,140 shares with a weighted average fair value of \$23.82 in 1999.

### Segment Information

The company's segments are reported on the same basis used internally for evaluating segment performance and for allocating resources.

The company has five segments: Engineered Materials, Merchandising Systems, Aerospace, Fluid Handling and Controls.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The company accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

Information by industry segments follows:

(in thousands)	1999	1998	1997
<b>Engineered Materials</b>			
Net Sales — Outside	\$353,534	\$275,969	\$222,789
Net Sales — Intersegment	3,539	2,985	2,771
Operating Profit	59,879 <sup>(a)</sup>	39,655	30,093
Assets	249,961	263,576	109,578
Capital Expenditures	4,380	6,094	8,210
Depreciation and Amortization	14,085	9,633	6,178
<b>Merchandising Systems</b>			
Net Sales — Outside	201,941	191,927	179,905
Net Sales — Intersegment	—	—	—
Operating Profit	35,838	33,548	31,034
Assets	150,197	117,858	109,190
Capital Expenditures	6,979	2,815	5,089
Depreciation and Amortization	7,128	7,201	6,426
<b>Aerospace</b>			
Net Sales — Outside	363,128	394,401	343,900
Net Sales — Intersegment	—	65	—
Operating Profit	96,078 <sup>(a)</sup>	118,175	90,055
Assets	269,154	296,668	277,704
Capital Expenditures	8,245	17,515	13,496
Depreciation and Amortization	13,041	12,563	12,785
<b>Fluid Handling</b>			
Net Sales — Outside	502,170	554,210	496,553
Net Sales — Intersegment	57	3,567	3,282
Operating Profit	22,870 <sup>(a)</sup>	34,961	36,869
Assets	330,528	393,277	362,651
Capital Expenditures	6,390	17,195	7,640
Depreciation and Amortization	15,797	13,101	11,025
<b>Controls</b>			
Net Sales — Outside	120,166	131,052	130,284
Net Sales — Intersegment	1,051	1,265	1,237
Operating Profit	4,071 <sup>(a)</sup>	8,927	11,640
Assets	129,240	127,702	121,432
Capital Expenditures	1,905	4,264	2,538
Depreciation and Amortization	6,866	6,555	6,502

(a) Before special charges for Engineered Materials (\$3.2 million), Aerospace (\$9.0 million), Fluid Handling (\$18.9 million), and Controls (\$3.4 million).

(in thousands)	1999	1998	1997
<b>Consolidated</b>			
Net Sales			
Other	\$ 12,717	\$ 13,496	\$ 37,897
Intersegment Elimination	(4,646)	(7,882)	(7,290)
Total Net Sales	\$1,553,657	\$1,561,055	\$1,411,328
Operating Profit			
Other	\$ (546)	\$ (424)	\$ 353
Corporate	(13,598)	(22,937)	(23,425)
Special charges	(34,987)	—	—
Intersegment Elimination	(51)	56	140
Total Operating Profit	\$ 169,554	\$ 211,961	\$ 176,759
Assets			
Other	\$ 2,970	\$ 13,003	\$ 12,266
Corporate	43,397	46,987	49,383
Net Assets of Discontinued Operations	—	120,660	89,279
Total Assets	\$1,175,447	\$1,379,731	\$1,131,483
Capital Expenditures			
Other	\$ 274	\$ 810	\$ 245
Corporate	815	50	83
Total Capital Expenditures	\$ 28,988	\$ 48,743	\$ 37,301
Depreciation and Amortization			
Other	\$ 335	\$ 269	\$ 416
Corporate	4,028	6,551	7,659
Total Depreciation and Amortization	\$ 61,280	\$ 55,873	\$ 50,991

Information by geographic segments follows:

(in thousands)	1999	1998	1997
<b>Net Sales</b>			
United States	\$ 1,012,090	\$ 977,587	\$ 864,683
Canada	202,899	194,723	197,039
Europe	238,320	260,607	213,681
Other International	100,348	128,138	135,925
Total Net Sales	\$ 1,553,657	\$ 1,561,055	\$ 1,411,328
<b>Operating Profit</b>			
United States	\$ 154,350	\$ 162,800	\$ 134,753
Canada	10,351	14,673	15,773
Europe	8,465	37,715	32,016
Other International	10,376	19,710	17,642
Corporate	(13,988)	(22,937)	(23,425)
Total Operating Profit	\$ 169,554	\$ 211,961	\$ 176,759
<b>Assets</b>			
United States	\$ 874,568	\$ 1,079,451	\$ 842,661
Canada	91,367	81,570	83,510
Europe	148,715	151,950	141,011
Other International	17,400	19,773	14,918
Corporate	43,397	46,987	49,383
Total Assets	\$ 1,175,447	\$ 1,379,731	\$ 1,131,483

## Management's Responsibility 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 the company's financial position and results of operations and cash flows. 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 LLP, independent auditors,

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  
Chairman and Chief Executive Officer



D. S. Smith  
Vice President, Finance and Chief Financial Officer

## Independent Auditors' Report



### To The Shareholders of Crane Co.

We have audited the accompanying consolidated balance sheets of Crane Co. and its subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows and changes in common shareholders' equity for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require 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 esti-

mates 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 its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.



Stamford, Connecticut  
January 20, 2000

## 1998 Review

# Management's Discussion and Analysis of Operations

### Engineered Materials

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(dollars in millions)	1998	1997
Sales	<b>\$279.0</b>	\$225.6
Operating Profit	<b>39.7</b>	30.1
Operating Margins	<b>14.2%</b>	13.3%

Operating profit rose 32% on a 24% increase in sales in the Engineered Materials segment, reflecting substantial growth at Kemlite and the acquisition of Sequentia. Strong transportation and building supply markets benefited Kemlite, Sequentia, and CorTec, which all manufacture fiberglass-reinforced plastic (frp) materials. Partly offsetting their results were a small loss at Crane Plumbing and modestly lower earnings at Resistoflex. Order backlog was \$24 million at year end compared with \$29 million in 1997.

Increasing use of lightweight, thermally efficient frp roofs for refrigerated trucks and trailers and translucent frp roofs in dry van trailers and trucks, along with strong markets for truck and trailer liner panels, recreational vehicle panels and building panels, boosted Kemlite's sales in 1998. The increased volume, coupled with successful cost reduction efforts, led to improved margins and record operating profits.

The substitution of translucent frp roofs for aluminum on dry van trailers appeared to plateau, but the use of non-translucent frp roofs on refrigerated trucks and trailers increased. In addition, Korean container manufacturers increased their purchases of Kemlite frp panels in 1998.

Crane's \$125 million acquisition of Sequentia Holdings in August 1998 significantly expanded Kemlite's penetration of the corrugated, translucent and flat embossed building products markets, partic-

ularly in the home center chains. Crane bought Sequentia's transportation product line in early 1997.

CorTec reported a profit gain on increased sales, consistent with strong medium truck and dry van trailer markets.

Resistoflex modestly increased sales of its corrosion-resistant plastic-lined pipes and fittings, despite lagging demand from the chemical process industry and soft export markets. The September acquisition of Plastic-Lined Piping Products (PLPP), a competitor, for \$23 million boosted sales, but overall margins and operating profits were moderately lower. The company's primarily military aerospace fittings business was strong in 1998, with profitability enhanced by new machining centers, but competition for new military contracts intensified.

Marginally profitable in 1997, Crane Plumbing operated at a small loss on an 8% decline in revenue in 1998, prompting a management change. The Montreal-based company makes china, steel and acrylic plumbing fixtures for new construction, repair and renovation, serving residential, industrial, commercial and institutional markets, primarily in Canada. In spite of well-received new lavatory products, wholesale demand dipped on a nationwide decline in housing starts, particularly in Quebec and in British Columbia. Retail sales, however, rose 21%, as Crane gained major home centers and hardware chains as customers.

Polyflon, which provides proprietary materials and circuit processing services to the microwave industry, had level profits on slightly lower sales, as a better business mix strengthened margins.

### Merchandising Systems

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(dollars in millions)	1998	1997
Sales	<b>\$191.9</b>	\$179.9
Operating Profit	<b>33.5</b>	31.0
Operating Margins	<b>17.5%</b>	17.3%

The Merchandising Systems segment turned in a solid overall performance in 1998, with increased sales and operating profits that reflected both energetic sales efforts and successful cost-cutting. National Vendors, the larger of the segment's two businesses, reported moderate sales gains and maintained its strong margins and profits, while the other business, National Rejectors, improved its margins and profits on slightly lower sales. Order backlog totaled \$22 million at December 31, 1998, up 20% over 1997.

National Vendors moved ahead briskly on several fronts in 1998, achieving increased sales and higher profits domestically and in Europe. National Vendors' UMC unit in the U.K. had its best year ever, and the company's German operation also improved its performance, as corporate downsizing and cost-cutting resulted in substitution of vending machines for employee cafeterias. National Vendors also began selling in China, a promising market, and strengthened its Latin American operations by establishing three distributors in Mexico and expanding its operations in Chile and Colombia.

National Vendors reduced from 58 to 26 the number of distributors for its "GPL" brand of machines, intended as a lower-cost

solution for smaller operators. The network now includes only one GPL distributor in most major metropolitan markets in order to avoid overlaps with other GPL distributors or with National Vendors' direct sales. The use of exclusivity is aimed at sharpening the distributor's focus on GPL products. Internationally, GPL sales expanded in Canada and the U.K., contributing to record National Vendors shipments in both countries.

National Rejectors' shipments of coin-validation machines were down modestly from 1997. Weakness in the amusement industry and stiffer competition in the U.K. and Spain, two major markets, offset continuing strong sales of validators for outdoor cigarette machines in Germany. Cost reductions, product redesign and productivity improvements strengthened NRI's margins, resulting in a solid gain in profits.

In the past two years, NRI has upgraded many of Germany's estimated 800,000 mechanical outdoor cigarette machines with new electronic validators that can be programmed to accept euro coins when they are introduced in 2002. However, many more cigarette machines, and several hundred thousand other vending machines, remain to be refitted, promising strong sales of NRI products in Germany and Europe in coming years. NRI derives some 57% of its revenue from Germany and 40% from other European markets, including Spain and the U.K., where its German-made validators compete with locally made products. NRI also sells to other international markets, supplying validators for Canada's lottery machines, for example, and validators and coin-changers for South American markets.

## Aerospace

(dollars in millions)	1998	1997
Sales	<b>\$394.5</b>	\$343.9
Operating Profit	<b>118.2</b>	90.1
Operating Margins	<b>30.0%</b>	26.2%

Crane's aerospace businesses were extremely strong in 1998, increasing their combined operating profits by 31% on a 15% gain in sales. All four businesses in the segment reported higher sales, and three had higher earnings fueled by strong commercial, business and general aviation markets. Order backlog totaled \$281 million at year end, compared with \$297 million in 1997.

### Record Results for Hydro-Aire

Hydro-Aire, the world market leader in aircraft anti-skid brake control systems, turned in a record performance, with operating profits up 23% on a 19% increase in sales. Every Boeing airplane uses its high-performance brake control systems, and many use its fuel pumps. For instance, the high-volume Boeing 737-700 series incorporates many Hydro-Aire products, including brake control units, wheelspeed transducers, anti-skid control valves, jettison pumps and boost pumps. After-market sales of parts and repair and overhaul services also grew substantially.

With its brake control systems on all Embraer and many Bombardier aircraft, Hydro-Aire further strengthened its position in regional jets in 1998, winning the brake control systems on the Dornier 528, 728 and 928. It also won the brake control systems contract for a new Raytheon Beech business jet.

ELDEC, Crane's largest aerospace business, also set sales and earnings records in 1998, increasing its operating profits by 41% on a sales gain of 15%. Strong OEM sales, particularly to Boeing, fueled the increases. ELDEC is a market leader in proximity sensing systems, battery systems, transformer rectifiers and fuel flowmeters. During 1998, both Rolls Royce and Pratt & Whitney chose ELDEC's

new solid-state pressure transducers, designed for high accuracy under harsh conditions, for their new aircraft engines.

In its power supply business, ELDEC has developed strong relationships with such major aerospace equipment suppliers as the U.K.'s Smiths Industries, positioning the company to provide power supplies for products such as avionics on the planned Eurofighter.

After successfully implementing an Enterprise Resource Planning system in 1997, ELDEC improved its internal operations in 1998, increasing its on-time deliveries to customers.

In its second full year as a Crane company, Interpoint had record results, with operating profits rising 55% on a 10% increase in sales, as the company cut costs while increasing output, reorganized and refocused on growth opportunities in the custom, medical and space markets. Interpoint makes proprietary, high-density power converters and microelectronic hybrid devices and is the only Class K, space-qualified supplier of dc-to-dc power converters. Satellites typically use scores of these highly reliable, lightweight devices. In addition, Interpoint has a small but growing share in the expanding markets for medical electronic devices included in products such as pacemakers, defibrillators, heart assist pumps, surgical saws and insulin pumps.

Significant up-front engineering investments on recent development programs, critical to sustaining the business, modestly reduced Lear Romec's margins and operating profits, despite a 10% increase in sales. Commercial OEM markets for Lear Romec's lubrication and scavenge pumps and centrifugal fuel pumps were strong, as were general aviation, regional and business jet markets, while military sales were flat. Aftermarket sales, including civilian and military spares and repair and overhaul contracts, increased substantially. Sales of parts manufactured for Hydro-Aire also increased. Continuing cost reductions and productivity improvements, including cell manufacturing, helped Lear Romec compete successfully in price-sensitive markets.

## Fluid Handling

(dollars in millions)	1998	1997
Sales	\$557.8	\$499.8
Operating Profit	35.0	36.9
Operating Margins	6.3%	7.4%

Sales increased 12% in the Fluid Handling segment in 1998, but operating profits declined by 5%, as markets for many of its products — valves, pumps and water treatment systems — worsened as the year progressed. The increase was derived from acquisitions and strong first-half sales for many of the businesses in the group. The gain was smaller than expected as a result of Asia's economic problems and plunging oil prices, which constrained capital goods purchases and intensified price competition worldwide. Canadian-based Crane Supply sales and profits were slightly down and losses in commercial valves and profit declines in water treatment systems more than offset solid gains in engineered valves. Order backlog totaled \$79 million, down \$34 million from the prior year.

In the engineered valve group, most of the cast steel, butterfly and check valve businesses performed well, with solid sales gains and modest profit increases fueled in part by the addition of the Stockham businesses, acquired in December, 1997. Crane Australia, which makes steel valves for the oil and gas and petrochemical industries, had slightly lower sales and earnings. Crane's manufacturing joint venture in Ningjin, China, had a strong year, increasing shipments 95% over the prior year. Westad, Crane's marine valve manufacturer in Norway, increased its sales and earnings in 1998, but sales are expected to drop sharply in 1999 as a result of the decline in Korean shipbuilding. In Crane's service business, which varies with utilities' nuclear plant outages, sales and profits declined as expected after an exceptionally strong 1997.

In commercial valves, difficulties in absorbing Stockham's bronze production led to supply shortages and lost business, contributing

to a loss for the year. In addition, Crane U.K. installed a new business system, and right-sized the business for current market conditions, which were down 13% from the prior year. As a result, \$3.2 million of restructuring costs were incurred in 1998, producing a loss for the year.

Sales and earnings were up slightly at Crane Pumps & Systems. Individual brands' results varied as the company's products serve major municipal, military and industrial markets. Barnes commercial pumps and pressure sewer products performed well. Burks Pumps, which serves the original equipment machinery market, was impacted by the reduction in capital spending in the semiconductor industry, and sales of Weinman's HVAC pumps were constrained by depressed high-rise construction in the Far East. Deming benefited from a large order for pumps used in hazardous material destruction. Government orders generally were down as military spending continued to decline. Deferral of major project awards in the chemical process and automotive industries affected sales and profits at Chempump and Process Systems, though not their market share.

The May 1998 acquisition of Environmental Products USA, a manufacturer of state-of-the-art, membrane-based water treatment systems, helped Cochrane reposition its business away from heavy industrial filtration markets toward light industrial, beverage and other potable water treatment systems. With the acquisition, overall sales rose but profits were off sharply from 1997 as Cochrane's important Asia markets weakened and industry pricing pressures intensified.

Canadian-based Crane Supply sales and operating profits were down slightly in U.S. dollar terms but it was able to maintain its operating margins at 6.2% of sales. In Canadian dollars, Crane Supply achieved modestly higher profits on a solid sales increase that reflected share gains in generally flat Canadian markets.

## Controls

(dollars in millions)	1998	1997
Sales	\$132.3	\$131.5
Operating Profit	8.9	11.6
Operating Margins	6.7%	8.9%

Sales increased marginally in the Controls segment in 1998, but operating profits fell by 23% as Crane's businesses faced weak export markets and stiffening price competition. Order backlog totaled \$28 million at year end, compared with \$32 million in 1997.

Barksdale continued to win acceptance in domestic and European markets for its unique air suspension valves, but operating profits dropped on flat sales. In oil and gas markets, traditionally Barksdale's most profitable, demand fell sharply as oil prices sank. The costs of implementing an Enterprise Resource Planning system offset positive initial results from Six Sigma cost reduction projects.

Ferguson's domestic and European businesses felt the ripple effect of lagging machinery exports to Asia, Latin America and Eastern Europe, which led to softening of capital equipment markets in the U.S. and Europe. Overall sales and operating profits declined, as did bookings, except in automotive assembly equipment. Ferguson supplies machinery manufacturers with products and devices ranging from indexers and pick-and-place robots to rotary tables and custom cams. A fall-off in sales of large indexers, typically used in large installations, stemmed from both the Asian downturn and the long General Motors strike. Lower overall volume and a less favorable product mix resulted, reducing margins and operating profits.

A moderate decline in sales and bookings and a larger drop in operating profits marked 1998 for Powers Process Controls. Shipments of Powers' core products — water-mixing and thermal shock protection shower systems, water and process controls, valves and temperature regulators — slipped in the face of stiffening price competition and newer technology. Powers' Canadian plumbing brass operation encountered supply chain problems in the second half of the year, reducing sales and profits.

Acquisition of a new product line and strong sales to agricultural equipment OEMs increased Dynalco's volume, while improved margins led to a solid gain in profits. Dynalco acquired Liberty Technologies' Beta line of engine and compressor analyzers in

September, when the rest of Liberty was acquired by Crane Nuclear. These products serve essentially the same markets as Dynalco's speed, temperature and pressure sensors and controls for rugged environments.

Azonix Corporation, whose man-machine interface (MMI) products for hazardous environments are already dominant in domestic oil and gas exploration, increased sales by expanding into focused harsh environment applications. Operating profits were level with strong 1997 results, largely because of a lower-margin product mix. Sales of higher-margin measurement and control products also gained in 1998, but overall bookings fell, primarily reflecting the oil industry downturn.

## Liquidity and Capital Resources

### Cash Flow

Operating activities in 1999 generated \$211 million in cash flow, allowing the company to invest \$33 million expanding its core businesses by making an acquisition, invest \$29 million in capital equipment and return \$151 million to shareholders through dividends and share repurchases. This represents the sixth consecutive year that Crane has generated cash in excess of \$100 million from operations and the first year over \$200 million.

Net cash used for investing decreased compared with the prior year, mainly because of the four acquisitions made in 1998. Capital expenditures in 1999 totaled \$29 million and primarily funded manufacturing and business process system projects.

Net cash used for financing activities in 1999 includes \$124 million for the repurchase of 6 million shares of Crane common stock and \$27 million for the payment of dividends. Debt repayments totaled \$289 million.

### Capital Structure

The following table sets forth the company's capitalization:

(dollars in thousands) December 31	1999	1998
Short-term debt	\$ 13,656	\$ 50,869
Long-term debt	286,772	357,710
Total debt	300,428	408,579
Less cash	3,245	16,195
Total net debt	297,183	392,384
Shareholders' equity	568,110	643,234
Total capitalization	\$ 865,293	\$ 1,035,618
% of net debt to shareholders' equity	52.3%	61.0%
% of net debt to total capitalization	34.3%	37.9%

As of December 31, 1999, the company had unused domestic lines of credit totaling \$150.0 million and unused foreign lines of credit totaling \$48.9 million. These lines of credit are typically available for borrowings up to 364 days and are renewable at the option of the lender. Short-term obligations of \$46.8 million at December 31, 1999, and \$150 million at December 31, 1998, were classified as long-term debt because the company had entered into finance agreements that permit it to refinance short-term obligations on a long-term basis.

At December 31, 1999, the company had a \$300 million contractually committed long-term bank credit facility under which the company can borrow, repay or, to the extent permitted by the agreement, prepay loans and reborrow at any time prior to the termination date of November 2003. Proceeds may be used for general corporate purposes or to provide financing for acquisitions. The agreement contains certain covenants, including limitations on indebtedness and liens. A loan for \$20 million was outstanding under this agreement at year end. The company has a \$300 million shelf registration filed with the Securities and Exchange Commission, all of which remains unissued.

Crane is a party to a contractually committed off-balance sheet chattel paper financing facility that enables its National Vendors operation to offer various sales support financing programs to its customers. Recourse to Crane for all uncollectible loans made to National Vendors' customers by the banks under this agreement is limited.

In addition, the company's U.K. subsidiary was also party to a contractually committed long-term line of credit in the U.K. This facility permits borrowing up to \$3.2 million, all of which was outstanding at December 31, 1999.

The company's Canadian subsidiary was party to a contractually committed long-term line of credit in Canada. This facility permits borrowing of up to \$17.3 million, of which \$13.8 million was outstanding at December 31, 1999.

As of December 31, 1999, the company's senior unsecured debt was rated BBB+ by Standard and Poor's and Baa1 by Moody's Investors Service. The company believes it has adequate access to both public and private credit markets to meet all of its operating and strategic objectives.

## Environmental

The company continues to be involved in various remediation actions to clean-up hazardous wastes as required by federal and state laws. Estimated future environmental remediation cost was \$10.0 million at December 31, 1999, which was fully accrued. In certain of these actions, the company is one of several potentially responsible parties ("PRPs"). As a PRP, the company could be liable for all clean-up cost despite the involvement of other PRPs. Given the financial stability of the other PRPs, the company believes this is unlikely, and the accrual represents management's best estimate, based on current facts and circumstances, with respect to the ultimate liability that will be apportioned to the company. The company spent \$2.1 million on environmental costs in 1999, and expects to pay remediation costs of approximately \$2.6 million in 2000. The annual level of future remediation expenditures is difficult to estimate because of the many uncertainties relating to conditions of individual sites as well as uncertainties about the status of environmental laws and regulations and developments in remedial technology. In addition, the company is a minor/de minimis potentially responsible party (PRP) at certain third-party environmental remediation sites where remediation obligations are joint and several, and the company, as part of its estimate of potential liability, periodically reviews whether the major PRPs have the ability to fulfill their portion of such remediation obligations. The company is not aware of any significant additional liability that would result from the inability of other PRPs to fulfill their obligations. Overall, the company's liability for the required remedial actions being implemented or engineered is not, individually or in the aggregate, expected to be material.

## Impact of the Year 2000

The Year 2000 Issue related to most computer software programs using two digits, rather than four, to define the applicable year for dates. Any of the company's information technology (IT) and non-information technology (non-IT) systems and its products might have recognized a date using "00" as the year 1900, rather than the year 2000. This could have resulted in system failures or miscalculations, causing disruptions in operations, including the inability to process transactions and engage in similar normal business activities within the company and with third parties.

In 1997, Crane initiated a program to address the company's Year 2000 exposure. The program was substantially completed on schedule in 1999. Crane experienced no material adverse effects related to the arrival of 2000.

Cost of the Year 2000 program was approximately \$28.3 million, of which \$10.0 million was expensed and \$18.3 million was capitalized. These costs were funded from normal operating cash flows of the business. Estimated future costs related to the Year 2000 program are insignificant.

The company believes that modifications and conversions of its software and hardware systems were successful. However, there remains the possibility of latent Year 2000 problems in systems that could cause a failure in the company's systems. Such failure could result in an interruption in, or a failure of, certain normal business activities or operations, which could have a material adverse effect on the company's results of operations, liquidity or financial condition. The company believes that such an occurrence is unlikely. However, based on current information, the most reasonably likely worst-case scenario would involve the temporary disruption of the company's ability to fulfill customer orders, and no material adverse effect on the company's financial condition is expected from this specific scenario.

## Quantitative and Qualitative Disclosures about Market Risks

The company's cash flows and earnings are subject to fluctuations from changes in interest rates and foreign currency exchange rates. The company manages its exposures to these markets risks through internally established policies and procedures and, when deemed appropriate, through the use of interest rate swap agreements and forward exchange contracts. Long-term debt outstanding of \$287 million at December 31, 1999, was generally at fixed rates of interest ranging from 6.68% to 8.50%. At December 31, 1999, no interest rate swap agreements were outstanding and the amounts outstanding for forward exchange contracts were not material. The company does not enter into derivatives or other financial instruments for trading or speculative purposes.

## Risk Factors

Throughout this Annual Report to shareholders, particularly in the Chairman's Letter to Shareholders on pages 2-4 and in the sections of Management's Discussion and Analysis of Operation on pages 6-14 the company makes numerous statements about expectations of future performance and market trends, and statements about plans and objectives and other matters, which because they are not historical fact may constitute "forward looking statements" within the meaning of the Private Securities and Litigation Reform Act of 1995. Similar forward looking statements are made periodically in reports to the Securities and Exchange Commission, press releases, reports, and documents and in written and oral presentations to investors, shareholders, analysts and others, regarding future results or expected developments. Because the company wishes to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, readers are cautioned to consider, among others, the risk factors that will be described in the company's Form 10-K for the period ended December 31, 1999, to be filed with the Securities and Exchange Commission before March 31, 2000, when evaluating such forward looking statements about future results or developments.

Copies of the company's Form 10-K can be obtained after it is filed by writing to the company at the address on the back cover, from the Securities and Exchange Commission, or through the Internet at the company's Web site at [www.craneco.com](http://www.craneco.com).

## Five Year Summary of Selected Financial Data

Years Ended December 31,(in thousands except per share data)	1999	1998	1997	1996	1995
Net Sales	<b>\$ 1,553,657</b>	\$ 1,561,055	\$ 1,411,328	\$ 1,252,544	\$ 1,211,454
Depreciation and Amortization	<b>61,280</b>	55,873	50,991	44,474	43,537
Operating Profit	<b>169,554<sup>(a)</sup></b>	211,961	176,759	144,049	124,059
Interest Expense	<b>27,854</b>	27,661	23,632	23,203	26,528
Income Before Taxes	<b>155,795<sup>(a)</sup></b>	192,789	161,022	124,263	101,374
Provision for Income Taxes	<b>54,897</b>	67,947	57,306	44,441	36,888
Income from Continuing Operations	<b>100,898<sup>(a)</sup></b>	124,842	103,716	79,822	64,486
Income from Continuing Operations per Diluted Share	<b>1.50<sup>(a)</sup></b>	1.80	1.50	1.16	0.94
Cash Dividends per Common Share	<b>0.40</b>	0.37	0.33	0.33	0.33
Total Assets	<b>1,175,447</b>	1,379,731	1,131,483	1,035,311	951,835
Long-Term Debt	<b>286,772</b>	357,710	259,001	265,721	278,553

## Quarterly Results for the Year

Years Ended December 31,(in thousands except per share data)	First	Second	Third	Fourth	Year
<b>1999</b>					
Net Sales	<b>\$ 400,046</b>	<b>\$ 405,268</b>	<b>\$ 384,193</b>	<b>\$ 364,150</b>	<b>\$ 1,553,657</b>
Cost of Sales	261,255	265,336	270,684	255,481	1,052,756
Depreciation and Amortization <sup>(b)</sup>	12,603	12,667	12,537	14,524	52,331
Gross Profit	126,188	127,265	100,972	94,145	448,570
Income from Continuing Operations	32,435	36,098	18,347	14,018	100,898 <sup>(a)</sup>
Net Income	33,666	39,311	22,355	19,238	114,570 <sup>(a)</sup>
Income from Continuing Operations per Diluted Share	0.47	0.53	0.27	0.22	1.50 <sup>(a)</sup>
<b>1998</b>					
Net Sales	\$ 379,959	\$ 390,618	\$ 393,229	\$ 397,249	\$ 1,561,055
Cost of Sales	252,283	254,368	254,776	256,221	1,017,648
Depreciation and Amortization <sup>(b)</sup>	10,296	9,768	12,019	12,490	44,573
Gross Profit	117,380	126,482	126,434	128,538	498,834
Income from Continuing Operations	28,933	33,944	31,672	30,293	124,842
Net Income	29,899	36,557	36,775	35,207	138,438
Income from Continuing Operations per Diluted Share	0.42	0.49	0.46	0.44	1.80

(a) Includes special charges of \$34,987 (\$22,567 after tax or \$.33 per share) (b) Amount included in cost of sales. Note:Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarters'earnings per share in 1999 and 1998 does not equal the total computed for the year.

## Market and Dividend Information—Crane Co. Common Shares

Quarter	New York Stock Exchange Composite Price Per Share				Dividends Per Share	
	1999 High	1999 Low	1998 High	1998 Low	1999	1998
First	<b>\$31 1/2</b>	<b>\$23 3/16</b>	\$35 1/2	\$26 3/4	<b>\$.1000</b>	\$.0825
Second	<b>32 3/4</b>	<b>23 11/16</b>	37 7/16	31	<b>.1000</b>	.0825
Third	<b>30</b>	<b>\$21 1/2</b>	35 43/64	23 5/16	<b>.1000</b>	.1000
Fourth	<b>23 3/8</b>	<b>16 1/6</b>	\$32 3/4	21 3/4	<b>.1000</b>	.1000
					<b>\$.4000</b>	\$.3650

On December 31,1999,there were approximately 5,100 holders of record of Crane Co.common stock.

# Corporate Information

## Directors

### **E. Thayer Bigelow, Jr.** <sup>(1,3)</sup>

Senior Advisor;  
Time Warner, Inc.  
Media and Entertainment

### **Robert S. Evans** <sup>(1)</sup>

Chairman and  
Chief Executive Officer of the Company

### **Eric C. Fast**

President and  
Chief Operating Officer of the Company

### **Richard S. Forté** <sup>(2)</sup>

President,  
Dawson Forté Cashmere Company  
Importer

### **Dorsey R. Gardner** <sup>(2,3)</sup>

President, Kelso Management Company, Inc.  
Investment Management

### **John J. Lee** <sup>(2)</sup>

Chairman and Chief Executive Officer  
of Hexcel Corporation  
Manufacturer of Composite Materials and Engineered Products

### **William E. Lipner**

Chairman, President and  
Chief Executive Officer  
NFO Worldwide, Inc.  
Marketing Information / Research Services Worldwide

### **Dwight C. Minton** <sup>(1,3)</sup>

Chairman, Church & Dwight Co., Inc.  
Manufacturer of Consumer and Specialty Products

### **Charles J. Queenan, Jr.** <sup>(2)</sup>

Senior Counsel, Kirkpatrick & Lockhart LLP  
Attorneys at Law

### **James L.L. Tullis** <sup>(1,3)</sup>

Chairman, Tullis-Dickerson & Co.  
Venture Capital to Health Care Industry

## Corporate Officers

### **Robert S. Evans**

Chairman and  
Chief Executive Officer

### **Eric C. Fast**

President and  
Chief Operating Officer

### **Gil A. Dickoff**

Treasurer

### **Augustus I. duPont**

Vice President,  
General Counsel and Secretary

### **Bradley L. Ellis**

Vice President,  
Chief Information Officer

### **Thomas M. Noonan**

Vice President,  
Taxes

### **John R. Packard**

Vice President,  
Human Resources

### **Anthony D. Pantaleoni**

Vice President,  
Environment, Health and Safety

### **Michael L. Raithe**

Vice President,  
Controller

### **David S. Smith**

Vice President,  
Finance and Chief Financial Officer

(1) Member of the Executive Committee

(2) Member of the Audit Committee

(3) Member of the Organization and Compensation Committee

# Shareholder Information

## Crane Co. Internet Homepage and Shareholder Information Line

Copies of Crane Co.'s report on Form 10-K for 1999 as filed with the Securities and Exchange Commission as well as other financial reports and news from Crane Co. may be read and downloaded off the Internet at [www.craneco.com](http://www.craneco.com).

If you do not have access to the Internet, you may request printed materials by telephone, toll-free, from our Crane Co. Shareholder Direct® hotline 1-888-CRANE CR (1-888-272-6327).

Both services are available 24 hours a day, 7 days a week.

## Annual Meeting

The Crane Co. annual meeting of shareholders will be held at 10:00 A.M. on Monday, April 10, 2000 at the Westin Stamford Hotel, One First Stamford Place, Stamford, CT 06902.

## Stock Listing

Crane Co. common stock is traded on the New York Stock Exchange, listed under the symbol "CR".

## Auditors

Deloitte & Touche LLP  
Stamford Harbor Park  
Stamford, CT 06902

## 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, disability or national origin.

## Environment, Health & Safety Policy

Crane Co. is committed to protecting the environment and will strive to protect the biosphere by taking responsibility to prevent serious or irreversible environmental degradation through efficient operations and activities. Crane Co. recognizes environmental management among its highest priorities throughout the corporation, and has established policies and programs which are integral and essential elements of the business plan of each of the business units. Additionally, Crane Co. has established the position of Vice President-Environment, Health and Safety, which is responsible for assuring compliance, measuring environmental performance and conducting regular environmental audits in order to provide appropriate information to the Crane Co. management team and to regulatory authorities.

## Stock Transfer Agent and Registrar of Stock

EquiServe/First Chicago Trust Division  
Customer Service: 1-201-324-1225  
Non-Postal Deliveries  
525 Washington Blvd.  
Jersey City, NJ 07310

## Dividend Reinvestment & Optional Payments

P.O. Box 13531  
Newark, NJ 07188-0001

## General Correspondence & Changes of Address

P.O. Box 2500  
Jersey City, NJ 07303-2500

## Transfer of Stock Certificates

P.O. Box 2506  
Jersey City, NJ 07303-2506

## Bond Trustee and Disbursing Agent

The Bank of New York  
Corporate Trust Department  
1-800-438-5473  
101 Barclay Street — 7 East  
New York, NY 10286

## Dividend Reinvestment and Stock Purchase Plan

Crane offers shareholders the opportunity to participate in a Dividend Reinvestment and Stock Purchase Plan. The plan provides two convenient methods for increasing your investment in Crane Co. common shares, without paying fees and commissions.

**Dividend Reinvestment:** for all or part of your dividends on Crane common shares; and **Voluntary Cash Payments:** of any amount from \$10 to a maximum of \$5,000 a month.

Under terms of the Plan, EquiServe/First Chicago Trust Division will act as agent for shareholders interested in purchasing additional Crane common shares automatically, on a regular basis. The details of this plan and its benefits to you as a Crane shareholder are described in a brochure available by writing to:

## EquiServe/First Chicago Trust Division

Dividend Reinvestment Plan  
Crane Co.  
P.O. Box 2598  
Jersey City, NJ 07303-2598

**Crane Co.**  
**Executive Offices**

100 First Stamford Place  
Stamford, CT 06092  
(203) 363-7300

[www.craneco.com](http://www.craneco.com)