CRANE CO /DE/
Form 10-Q
November 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One:

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from ______ to ______

Commission File Number: 1-1657

CRANE CO.

(Exact name of registrant as specified in its charter)

Delaware	**13-1952290**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
100 First Stamford Place, Stamford, CT	**06902**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: 203-363-7300

(Not Applicable)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the issuer s classes of common stock, as of October 25, 2006

Common stock, $1.00 Par Value 61,025,068 shares

Part I - Financial Information

Item 1. Financial Statements

Crane Co. and Subsidiaries

Consolidated Statements of Operations

(In Thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net sales	$ 567,704	$ 522,231	$ 1,675,237	$ 1,554,912
Operating costs and expenses:				
Cost of sales	378,054	356,058	1,125,978	1,071,033
Selling, general and administrative	118,487	104,414	354,790	325,372
Operating profit	71,163	61,759	194,469	158,507
Other income (expense)				
Interest income	552	503	2,163	1,004
Interest expense	(5,244)	(5,564)	(16,268)	(17,025)
Miscellaneous - net	1,461	778	7,143	2,844
	(3,231)	(4,283)	(6,962)	(13,177)
Income before income taxes	67,932	57,476	187,507	145,330
Provision for income taxes	21,889	17,434	59,602	44,616
Net income	$ 46,043	$ 40,042	$ 127,905	$ 100,714
Basic net income per share:	$ 0.75	$ 0.67	$ 2.10	$ 1.69
Diluted net income per share:	$ 0.74	$ 0.66	$ 2.06	$ 1.67
Average basic shares outstanding	61,110	59,936	60,941	59,676
Average diluted shares outstanding	62,226	60,490	62,192	60,229
Dividends per share	$ 0.150	$ 0.125	$ 0.400	$ 0.325

See Notes to Consolidated Financial Statements.

Part I - Financial Information

Item 1. Financial Statements

Crane Co. and Subsidiaries

Consolidated Balance Sheets

(In Thousands, except share amounts)

(Unaudited)

	September 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and Cash Equivalents	$ 99,077	$ 180,392
Accounts Receivable	342,865	289,521
Inventories:		
Finished goods	104,386	90,852
Finished parts and subassemblies	39,032	43,069
Work in process	53,551	46,406
Raw materials	104,994	92,027
	301,963	272,354
Deferred Tax Assets	38,426	42,104
Other Current Assets	13,041	14,024
Total Current Assets	795,372	798,395
Property, Plant and Equipment:		
Cost	754,081	738,368
Less accumulated depreciation	486,845	474,577
	267,236	263,791
Insurance Receivable - Asbestos	214,626	224,600
Other Assets	222,793	223,610
Intangible Assets, Net	118,905	60,735
Goodwill	712,377	568,355
Total Assets	$ 2,331,309	$ 2,139,486

See Notes to Consolidated Financial Statements.

Part I - Financial Information

Item 1. Financial Statements

Crane Co. and Subsidiaries

Consolidated Balance Sheets

(In Thousands, except share amounts)

(Unaudited)

	September 30, 2006	December 31, 2005
Liabilities and Shareholders Equity		
Current Liabilities		
Notes payable and current maturities of long-term debt	$ 315	$ 254
Accounts payable	155,557	149,647
Current asbestos liability	55,000	55,000
Accrued liabilities	186,024	174,366
U.S. and foreign taxes on income	28,984	19,322
Total Current Liabilities	425,880	398,589
Long-Term Debt	366,094	293,248
Accrued Pension and Postretirement Benefits	56,440	56,649
Deferred Tax Liability	70,417	71,406
Long-Term Asbestos Liability	486,899	526,830
Other Liabilities	31,875	39,470
Shareholders Equity:		
Preferred Shares, par value $.01; 5,000,000 shares authorized		
Common stock, par value $1.00; 200,000,000 shares authorized, 72,426,139 shares issued	72,426	72,426
Capital surplus	128,997	114,788
Retained earnings	915,629	814,197
Accumulated other comprehensive income	64,579	31,090
Treasury stock	(287,927)	(279,207)
Total Shareholders Equity	893,704	753,294
Total Liabilities and Shareholders Equity	$ 2,331,309	$ 2,139,486
Common Stock Issued	72,426	72,426
Less: Common Stock held in Treasury	(11,442)	(12,018)
Common Stock Outstanding	60,984	60,408

See Notes to Consolidated Financial Statements.

Part I - Financial Information

Item 1. Financial Statements

Crane Co. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Nine Months Ended September 30, 2006	2005
Operating activities:		
Net income	$ 127,905	$ 100,714
Income from joint venture	(4,525)	(4,476)
Gain on divestitures	(8,931)	
Depreciation and amortization	39,056	36,509
Stock-based compensation expense	11,288	6,452
Deferred income taxes	4,954	8,293
Cash used for operating working capital	(35,617)	(35,063)
Asbestos-related payments, net of insurance recoveries	(29,957)	(24,556)
Refund associated with terminated Master Settlement Agreement		9,925
Other	(1,257)	6,372
Total provided by operating activities	102,916	104,170
Investing activities:		
Capital expenditures	(22,312)	(17,634)
Proceeds from disposition of capital assets	3,317	1,569
Proceeds from divestitures	26,088	
Payment for acquisitions, net of cash acquired and liabilities assumed	(234,734)	(7,157)
Total used for investing activities	(227,641)	(23,222)
Financing activities:		
Equity:		
Dividends paid	(24,465)	(19,429)
Common shares acquired on the open market	(37,499)	
Stock incentive plan exercises, net of shares acquired	20,606	10,634
Excess tax benefit from stock-based compensation	7,575	
Debt:		
Issuance of Debt	71,700	
Repayments of long-term debt	(410)	(4,446)
Net increase in short-term debt	55	1,030
Total provided by (used for) financing activities	37,562	(12,211)
Effect of exchange rates on cash and cash equivalents	5,848	(5,860)
(Decrease) increase in cash and cash equivalents	(81,315)	62,877
Cash and cash equivalents at beginning of period	180,392	50,727

Cash and cash equivalents at end of period	$ 99,077	$ 113,604
Detail of Cash Used for Operating Working Capital		
Accounts receivable	$ (35,528)	$ (38,549)
Inventories	(16,174)	3,075
Other current assets	1,329	(1,235)
Accounts payable	1,530	(14,243)
Accrued liabilities	8,716	1,428
U.S. and foreign taxes on income	4,510	14,461
Total	$ (35,617)	$ (35,063)
Supplemental disclosure of cash flow information:		
Interest paid	$ 17,333	$ 18,304
Income taxes paid	22,292	13,588

See Notes to Consolidated Financial Statements.

Part I Financial Information

Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and the instructions to Form 10-Q and, therefore, reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim period presented. These interim consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

2. New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The requirements of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company believes that the adoption of FIN 48 will not have a material effect on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS No. 157 defines fair value, provides a framework for measuring fair value under current standards in GAAP, and requires additional disclosure about fair value measurements. In accordance with the Statement, the definition of fair value retains the exchange price notion, and exchange price is defined as the price in an orderly transaction between market participants to sell an asset or transfer a liability. If there is a principal market for the asset or liability, the fair value measurement should reflect that price, whether that price is directly observable or otherwise used in a valuation technique. Depending on the asset or liability being valued, the inputs used to determine fair value can range from objective inputs such as prices based on market data independent from the entity, and subjective inputs such as the entity s own assumptions about the estimates that market participants would use. The Statement applies to other accounting pronouncements that require or permit fair value measurements and will be effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the provisions of SFAS No. 157 to determine the potential impact, if any, the adoption will have on the Company s financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through comprehensive income of a business entity. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. As required by SFAS 158, the Company will initially recognize the funded status of its defined benefit and other postretirement plans and provide the required disclosures as of the fiscal year ended December 31, 2006. The Company is currently evaluating the provisions of SFAS No. 158 to determine the impact the adoption will have on the Company s financial statements.

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Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Quantifying Misstatements (SAB 108). SAB 108 provides guidance on quantifying and evaluating the materiality of unrecorded misstatements requiring the use of both a balance sheet and an income statement approach when quantifying and evaluating the materiality of a misstatement. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company believes that the adoption of SAB 108 will not have a material effect on its financial statements.

3. Segment Results

Net sales, operating profit and assets by segment are as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Sales				
Aerospace & Electronics	$ 142,982	$ 141,722	$ 429,860	$ 409,243
Engineered Materials	71,636	75,558	239,931	235,550
Merchandising Systems	73,384	40,610	179,566	130,050
Fluid Handling	256,249	244,036	755,445	718,504
Controls	23,387	20,413	70,637	61,896
Intersegment Elimination	66	(108)	(202)	(331)
Total	$ 567,704	$ 522,231	$ 1,675,237	$ 1,554,912
Operating Profit				
Aerospace & Electronics	$ 25,272	$ 26,461	$ 73,919	$ 60,679
Engineered Materials	9,661	15,691	38,551	50,835
Merchandising Systems	8,887	3,529	17,101	11,362
Fluid Handling	29,404	21,131	83,780	53,588
Controls	2,112	1,711	7,664	5,287
Corporate	(4,173)	(6,764)	(26,546)	(23,244)
Total	$ 71,163	$ 61,759	$ 194,469	$ 158,507

(in thousands)	As of	
	September 30, 2006	December 31, 2005
Assets		
Aerospace & Electronics	$ 464,016	$ 476,400
Engineered Materials	274,362	189,353
Merchandising Systems	289,430	104,162
Fluid Handling	731,630	692,856
Controls	49,470	48,107
Corporate	522,401	628,608

Total	$ 2,331,309	$ 2,139,486

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Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

4. Stock-Based Compensation Plans

The Company has two stock-based compensation plans: the Stock Incentive Plan and the Non-Employee Director Stock Compensation Plan. Options are granted under the Stock Incentive Plan to officers and other key employees and directors at an exercise price equal to the fair market value of the shares on the date of grant, which is defined for purposes of the plans as the average of the high and low prices for the Company s common stock on the 10 trading days ending on the date of grant. Options become exercisable at a rate of 50% after the first year, 75% after the second year and 100% after the third year from the date of grant and expire six years after the date of grant (ten years for all options granted to directors and for options granted to officers and employees prior to 2004). The Stock Incentive Plan also provides for awards of restricted common stock to officers and other key employees, subject to forfeiture restrictions which lapse over time.

During the first quarter of 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payments (SFAS 123R), which requires an entity to measure and recognize the cost of employee services received in exchange for equity instrument awards based on the grant-date fair value of such awards. Previously, in accounting for its stock option compensation plans, the Company applied the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). 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. Prior to 2006, no stock option-based employee compensation expense was reflected in the Company s net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. However, the required pro forma fair-value based compensation cost disclosure was provided in accordance with Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation , as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148).

The Company elected to adopt the modified prospective application of SFAS 123R effective January 1, 2006. Under this method, compensation expense is recognized for both new awards and the unvested portion of previously issued awards outstanding as of the effective date over the period the requisite employee services are rendered.

The Company determines the fair value of each grant using the Black-Scholes option pricing model. The following weighted-average assumptions for grants made during the nine-month periods ended September 30, 2006 and 2005 are as follows:

	2006	2005
Dividend yield	1.36%	1.49%
Volatility	26.40%	30.74%
Risk-free interest rate	4.28%	3.62%
Expected lives in years	4.20	4.20

Expected dividend yield is based on the Company s dividend policy. Expected stock volatility was determined based upon the historical volatility for the four-year-period preceding the date of grant. The risk-free interest rate was based on the yield curve in effect at the time the options were granted, using U.S. constant maturities over the expected life of the option. The expected term of the awards represents the period of time that options granted are expected to be outstanding.

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Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

Activity in the Company s stock option plans for the nine months ended September 30, 2006 was as follows:

Option Activity	Number of Shares (in 000 s)	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Options outstanding at beginning of period	6,125	$ 26.05	
Granted	940	36.88	
Exercised	(1,986)	25.29	
Canceled	(181)	31.97	
Options outstanding at end of period	4,898	28.22	4.49
Options exercisable at end of period	3,290	$ 25.77	4.33

During the first nine months of 2006 and 2005, the weighted-average fair value of options granted was $9.22 per share and $7.21 per share, respectively. During the first nine months of 2006 and 2005, the total intrinsic value of options exercised was $33.0 million and $5.1 million, respectively. The total cash received from these option exercises was $50.2 million and $14.2 million, respectively, and the tax benefit realized for the tax deductions from these option exercises was $9.3 million and $1.7 million, respectively. The aggregate intrinsic value of options outstanding and options exercisable as of September 30, 2006 was $66.5 million and $52.8 million, respectively.

Included in the Company s share-based compensation was expense recognized for its restricted stock awards of $6.2 million and $6.5 million in the first nine months of 2006 and 2005, respectively. Changes in the Company s restricted stock for the nine months ended September 30, 2006 were as follows:

Restricted Stock Activity	Restricted Shares (in 000 s)	Weighted Average Grant-Date Fair Value
Unvested restricted stock at beginning of period	642	$ 26.05
Granted	246	36.81
Vested	(244)	26.32
Forfeited	(28)	32.20
Unvested restricted stock at end of period	616	$ 29.97

Prior to January 1, 2006, the Company accounted for stock-based awards using the intrinsic value method in accordance with APB 25. The following table illustrates the effect on three months and nine months ended September 30, 2005 net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148:

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Notes to Consolidated Financial Statements (Unaudited)

(in thousands)	Three months ended September 30, 2005	Nine months ended September 30, 2005
Net income as reported	$ 40,042	$ 100,714
Add: Stock-based employee compensation of $1,579 and $6,452 for the three and nine months ended September 30, 2005, respectively, included in reported income, net of related tax effects	1,026	4,194
Less: Total stock-based employee compensation expense of $3,580 and $12,930 for the three and nine months ended September 30, 2005, respectively, determined under fair value based method for all awards, net of related tax effects	(2,367)	(8,525)
Net income pro forma	$ 38,701	$ 96,383
Basic earnings per share:		
As reported	$ 0.67	$ 1.69
Pro forma	$ 0.65	$ 1.62
Diluted earnings per share:		
As reported	$ 0.66	$ 1.67
Pro forma	$ 0.64	$ 1.60

The Company recognized share-based compensation expense of $11.3 million ($0.12 per diluted share, after related tax benefit of $3.9 million) in the first nine months of 2006 as a component of selling, general and administrative expense. In the first nine months of 2005, $6.5 million of share-based compensation expense was recognized, but because the Company adopted the new standard (SFAS 123R) prospectively as of January 1, 2006 it excludes expense related to stock options of $6.5 million. At September 30, 2006, there was $22.3 million of total unrecognized compensation cost related to stock-based compensation. That cost is expected to be recognized over a weighted average period of 1.7 years.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits resulting from the exercise of stock-based awards as operating cash flows in the consolidated statement of cash flows. SFAS 123R requires cash flows resulting from excess tax benefits to be classified as financing cash flows. Excess tax benefits result from tax deductions in excess of the compensation cost recognized for those awards. For the nine months ended September 30, 2006, cash flow from operating activities was decreased $7.6 million with a corresponding increase in cash flow from financing activities related to excess tax benefits.

5. Net Income Per Share

The Company s basic earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share gives effect to all dilutive potential common shares outstanding during the period.

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	$ 46,043	$ 40,042	$ 127,905	$ 100,714
Average basic shares outstanding	61,110	59,936	60,941	59,676
Effect of dilutive stock options	1,116	554	1,251	553

Average diluted shares outstanding	62,226	60,490	62,192	60,229
Basic net income per share	$ 0.75	$ 0.67	$ 2.10	$ 1.69
Diluted net income per share	0.74	0.66	2.06	1.67

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Notes to Consolidated Financial Statements (Unaudited)

6. Comprehensive Income

Total comprehensive income for the three and nine-month periods ended September 30, 2006 and 2005 is as follows:

(in thousands)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Net income	$ 46,043	$ 40,042	$ 127,905	$ 100,714
Foreign currency translation adjustments	1,739	(2,769)	33,489	(34,543)
Comprehensive income	$ 47,782	$ 37,273	$ 161,394	$ 66,171

7. Goodwill and Intangible Assets

Goodwill and intangible assets changes during the nine-month period ended September 30, 2006 primarily relate to the recording of preliminary purchase price allocations from the acquisition of substantially all the assets of CashCode Co. Inc. (CashCode) in January 2006, all of the outstanding capital stock of Telequip Corporation (Telequip) in June 2006, certain assets of Automatic Products international, ltd. (APi) in June and September 2006 and all of the outstanding capital stock of Noble Composites, Inc. (Noble) in September 2006. The final purchase price allocations will be completed during 2006.

Changes to goodwill are as follows:

(in thousands)	**Nine Months Ended September 30, 2006**	**Year Ended December 31, 2005**
Balance at beginning of period, net of accumulated amortization	$ 568,355	$ 579,081
Additions	133,521	4,569
Translation and other adjustments	10,501	(15,295)
Balance at end of period, net of accumulated amortization	$ 712,377	$ 568,355

Changes to intangible assets are as follows:

(in thousands)	**Nine Months Ended September 30, 2006**	**Year Ended December 31, 2005**
Balance at beginning of period, net of accumulated amortization	$ 60,735	$ 64,450
Additions	65,098	2,570
Translation and other adjustments	3,103	1,448
Amortization expense	(10,031)	(7,733)

Balance at end of period, net of accumulated amortization	$	118,905	$	60,735

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Notes to Consolidated Financial Statements (Unaudited)

A summary of intangible assets follows:

(in thousands)	**September 30, 2006**		**December 31, 2005**	
	Gross Asset	**Accumulated Amortization**	**Gross Asset**	**Accumulated Amortization**
Intellectual property rights	$ 104,119	$ 41,734	$ 78,296	$ 37,196
Drawings	10,825	7,562	10,825	7,363
Other	67,922	14,665	24,272	8,099
	$ 182,866	$ 63,961	$ 113,393	$ 52,658

The Other category includes assets such as customer/distributor relationships and customer sales backlog. Amortization expense for these intangible assets is currently estimated to be approximately $17.7 million in 2007, $14.4 million in 2008, $12.1 million in 2009, $11.9 million in 2010 and $10.7 million in 2011. Estimated amounts are subject to change based on the preliminary purchase price allocations currently being completed for CashCode, APi, Telequip and Noble.

Intangible assets totaled $118.9 million, net of accumulated amortization of $64.0 million at September 30, 2006. Included within this amount is $19.1 million of intangibles with indefinite useful lives, consisting of trade names which are not being amortized in accordance with the guidance of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets .

8. Acquisitions and Dispositions

In January 2006, the Company acquired substantially all of the assets of CashCode, a privately held company specializing in niche applications for banknote validation, storage and recycling devices for use in vending, gaming, retail and transportation applications, for approximately $85 million in cash. The final purchase price allocations will be completed during 2006; based on the preliminary purchase price allocation, approximately 90% will be for the acquisition of goodwill and intangibles. CashCode had sales of approximately $48 million in 2005. CashCode is located in Concord, Ontario, Canada and employs approximately 350 people worldwide, serving a global marketplace with 75% of its sales outside the United States, of which the majority are in Europe and Russia. CashCode was integrated into the Company s Merchandising Systems segment.

In June 2006, the Company acquired certain assets of APi, a privately held manufacturer of vending equipment, for a cash purchase price of approximately $20 million. In September 2006, additional assets of APi were acquired and a second payment of approximately $8 million was made. The final purchase price allocations will be completed during 2006; based on the preliminary purchase price allocation, approximately 65% will be for the acquisition of goodwill and intangibles. The acquisition included APi s extensive distribution network, product line designs and trade names, manufacturing equipment, aftermarket parts business, inventory and other related assets. The manufacturing equipment has been moved in October to the Crane Merchandising Systems facility in St. Louis, Missouri. The purchase did not include APi s manufacturing facility located in St. Paul, Minnesota. APi will be integrated into the Company s Merchandising Systems segment.

Also in June 2006, the Company acquired all of the outstanding capital stock of Telequip for a cash purchase price of approximately $45 million. The final purchase price allocations will be completed during 2006; based on the preliminary purchase price allocation, approximately 95% will be for the acquisition of goodwill and intangibles. Telequip, with headquarters in Salem, New Hampshire, has been manufacturing coin dispensing solutions since 1974. Telequip provides embedded and free-standing coin dispensing solutions

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Notes to Consolidated Financial Statements (Unaudited)

principally focused on the retail market which includes grocery and convenience stores, quick-service restaurants and self-checkout/self-service kiosks. Telequip s coin dispensers have a particularly strong position in automated self-checkout markets. Telequip will be integrated into the Company s Merchandising Systems segment.

In September 2006, the Company acquired all the outstanding capital stock of Noble for a cash purchase price of $72 million. The final purchase price allocations will be completed during 2006; based on the preliminary purchase price allocation, approximately 91% will be for the acquisition of goodwill and intangibles. Noble, located in Goshen, Indiana, is a privately held company specializing in the manufacture and sale of premium, high-gloss finished composite panels used by motor home and travel trailer manufacturers. Noble will be integrated into the Company s Engineered Materials segment.

On October 23, 2006, the Company announced that it had acquired all of the outstanding capital stock of Dixie-Narco Inc., a manufacturer of can and bottle vending machines, for a purchase price of $46 million in cash. Dixie-Narco manufactures can and bottle vending machines primarily for well-known companies such as Coca-Cola, PepsiCo, and Dr. Pepper/Seven Up. Dixie-Narco will be integrated into the Company s Merchandising Systems segment.

In April 2006, the Company completed the sale of the outstanding capital stock of Westad Industri A/S, a small specialty valve business located in Norway. This business had $25 million in sales in 2005. Westad was included in the Company s Fluid Handling segment. In May 2006, the Company completed the sale of substantially all of the assets of Resistoflex Aerospace, a manufacturer of high-performance hose and high pressure fittings located in Jacksonville, FL. This business had sales of $16 million in 2005. Resistoflex Aerospace was included in the Company s Aerospace & Electronics segment. The Company recognized an $8.9 million net gain from these divestitures. Resistoflex Aerospace was sold at a gain which was partly offset by a loss on Westad.

9. Asbestos Liability

Information Regarding Claims and Costs

As of September 30, 2006, the Company was a defendant in cases filed in various state and federal courts alleging injury or death as a result of exposure to asbestos. Activity related to asbestos claims during the periods indicated was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2006	**2005**	**2006**	**2005**	**2005**
Beginning claims	88,833	88,563	89,017	84,977	84,977
New claims	1,555	1,544	3,837	6,636	7,986
Settlements	(351)	(449)	(923)	(1,188)	(1,829)
Dismissals	(723)	(733)	(2,617)	(1,500)	(2,117)
Ending claims *	89,314	88,925	89,314	88,925	89,017

* Does not include 36,177 maritime actions that were filed in the United States District Court for the Northern District of Ohio and transferred to the Eastern District of Pennsylvania pursuant to an order by the Federal Judicial Panel on Multi-District Litigation (MDL). These claims have been placed on the inactive docket of cases that are administratively dismissed without prejudice in the MDL.

Part I Financial Information

Item 1. Financial Statements

Notes to Consolidated Financial Statements (Unaudited)

Of the 89,314 pending claims as of September 30, 2006, approximately 25,000 claims were pending in New York, approximately 32,000 claims were pending in Mississippi, approximately 9,200 claims were pending in Texas and approximately 3,400 claims were pending in Ohio, all jurisdictions in which legislation or judicial orders restrict the types of claims that can proceed to trial on the merits.

Since the termination of the comprehensive master settlement agreement (MSA) on January 24, 2005, the Company has been resolving claims filed against it in the tort system. The Company has not re-engaged in discussions with representatives of current or future asbestos claimants with respect to such a comprehensive settlement. While the Company believes that federal legislation to establish a trust fund to compensate asbestos claimants