CRANE CO /DE/
Form 10-K
February 25, 2010
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

## Washington, D.C. 20549

## FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2009

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-1657

# CRANE CO.

| State of incorporation: | I.R.S. Employer identification |
|---|---|
| Delaware | No. 13-1952290 |

Principal executive office:

100 First Stamford Place, Stamford, CT 06902
Registrant s telephone number, including area code (203) 363-7300

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $1.00 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

5.50% Senior Notes due September 2013

6.55% Senior Notes due November 2036

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act Yes ¨ No x

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨<br>(Do not check if a smaller reporting company) | Smaller Reporting Company ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Based on the closing stock price of $22.31 on June 30, 2009, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the voting common equity held by nonaffiliates of the registrant was $1,069,035,253.

The number of shares outstanding of the registrant s common stock, par value $1.00, was 58,558,628 at January 31, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual shareholders meeting to be held on April 19, 2010

are incorporated by reference into Part III of this Form 10-K.

# Crane Co.

# Form 10-K

For The Year Ended December 31, 2009

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## Part IV

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# Part I

## Forward-Looking Information

This Annual Report on Form 10-K contains information about us, some of which includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements other than historical information or statements about our current condition. You can identify forward-looking statements by the use of terms such as believes, contemplates, expects, may, w could, should, would, or anticipates, other similar phrases, or the negatives of these terms.

We have based the forward-looking statements relating to our operations on our current expectations, estimates and projections about us and the markets we serve. We caution you that these statements are not guarantees of future performance and involve risks and uncertainties. These statements should be considered in conjunction with the discussion in Part I, the information set forth under Item 1A, Risk Factors and with the discussion of the business included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. We have based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors, including the following:

Current economic conditions, which are beyond our control, causing many of our existing and potential customers to continue to delay or reduce purchases of our products or services;

Our ability to properly size our cost base in relation to any further declines in demand for our products;

Competitive pressures, including the need for technology improvement, successful new product development and introduction and any inability to pass increased costs of raw materials to customers;

Our ability to successfully value and integrate acquisition candidates;

Economic, social and political instability, currency fluctuation and other risks of doing business outside of the United States;

Delays in launching or supplying new products, or an inability to achieve new product sales objectives;

Our ongoing need to attract and retain highly qualified personnel and key management;

The ability of the U.S. government to terminate our contracts;

The outcomes of legal proceedings, claims and contract disputes;

Investment performance of our pension plan assets and fluctuations in interest rates, which may affect the amount and timing of future pension plan contributions;

Adverse effects on our business and results of operations, as a whole, as a result of further increases in asbestos claims or the cost of defending and settling such claims; and

Adverse effects as a result of further increases in environmental remediation activities, costs and related claims.

Reference herein to Crane , we , us , and our refer to Crane Co. and its subsidiaries unless the context specifically states or implies otherwise. Amounts in the following discussion are presented in millions, except employee, share and per share data, or unless otherwise stated.

## Item 1. Business.

We are a diversified manufacturer of highly engineered industrial products. Comprised of five segments Aerospace & Electronics, Engineered Materials, Merchandising Systems, Fluid Handling and Controls our businesses give us a substantial presence in focused niche markets, producing sustainable returns and excess cash flow. Our primary markets are aerospace, defense electronics, recreational vehicle ( RV ), transportation, automated merchandising, chemical, pharmaceutical, oil, gas, power, nuclear, building services and utilities.

Since our founding in 1855, when R.T. Crane resolved to conduct my business in the strictest honesty and fairness; to avoid all deception and trickery; to deal fairly with both customers and competitors; to be liberal and just toward employees, and to put my whole mind upon the business, we have been committed to the highest standards of business conduct.

Our strategy is to grow the earnings of niche businesses with leading market shares, acquire businesses that fit strategically with existing businesses, aggressively pursue operational and strategic linkages among our businesses, build a performance culture focused on continuous improvement, continue to attract and retain a committed management team whose interests are directly aligned with those of our shareholders and maintain a focused, efficient corporate structure.

We use a comprehensive set of business processes and operational excellence tools that we call the Crane Business System to drive continuous improvement throughout our businesses. Beginning with a core value of integrity, the Crane Business System incorporates Voice of the Customer teachings (specific processes designed to capture our customers requirements), value stream analysis linking customers and suppliers with our production cells, prescriptive and uniform visual management techniques and a broad range of operational excellence tools into a disciplined strategy deployment process that drives strong financial results by focusing on continuously improving safety, quality, delivery and cost.

We employ approximately 10,000 people in North and South America, Europe, the Middle East, Asia and Australia. Revenues from outside the United States were approximately 40% in both 2009 and 2008 and 38% in 2007.

### Business Segments

For additional information on recent business developments and other information about us and our business, you should refer to the information set forth under the captions, Management s Discussion and Analysis of Financial Condition and Results of Operations, in Part II, Item 7 of this report, as well as in Part II, Item 8 under Note 14, Segment Information, to the Consolidated Financial Statements for sales, operating profit and assets employed by each segment.

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PART I / ITEM 1

## Aerospace & Electronics

The Aerospace & Electronics segment has two groups, the Aerospace Group and the Electronics Group. The Aerospace Group s products are organized into the following solution sets which are designed, manufactured and sold under their respective brand names: Landing Systems (Hydro-Aire), Sensing and Utility Systems (Eldec), Fluid Management (Lear Romec) and Cabin Systems (P.L. Porter). The Electronic s Group products are organized into the following solution sets: Power Solutions (Eldec, Keltec, Interpoint), Microwave Systems (Signal Technology) and Microelectronics (Interpoint). In 2008, Aircraft Electrical Power (a portion of the Eldec business) was reclassified from the Aerospace Group to the Electronics Group as part of Power Solutions.

The Landing Systems solution set includes aircraft brake control and anti-skid systems, including electro-hydraulic servo valves and manifolds, embedded software and rugged electronic controls, hydraulic control valves, landing gear sensors and fuel pumps as original equipment to the commercial transport, business, regional, general aviation, military and government aerospace, repair and overhaul markets. This solution set also includes similar systems for the retrofit of aircraft with improved systems as well as replacement parts for systems installed as original equipment by aircraft manufacturers. All of these solution sets are proprietary to us and are custom designed to the requirements and specifications of the aircraft manufacturer or program contractor. These systems and replacement parts are sold directly to aircraft manufacturers, Tier 1 integrators (a company who makes products specifically for an aircraft manufacturer), airlines, governments and aircraft maintenance and overhaul companies. Manufacturing for Landing Systems is located in Burbank, California.

The Sensing and Utility Systems solution set includes custom position indication and control systems, proximity sensors, pressure sensors and true mass fuel flow meters for the commercial business, regional and general aviation, military, repair and overhaul and electronics markets. These products are custom designed for specific aircraft to meet technically demanding requirements of the aerospace industry. Our Sensing and Utility Systems products are manufactured at facilities in Lynnwood, Washington; Northants, England; and Lyon, France.

Our Fluid Management solution set includes lubrication and fuel pumps for aircraft and radar cooling systems for the commercial and military aerospace industries. It also includes fuel boost and transfer pumps for commuter and business aircraft. Our Fluid Management solutions are manufactured at a facility located in Elyria, Ohio.

Our Cabin Systems solution set includes motion control products for airline seating. We hold leading positions in both electromechanical actuation and hydraulic/mechanical actuation for aircraft seating, selling directly to seat manufacturers and to the airlines. Our Cabin Systems solutions are primarily manufactured in Burbank, California.

Our Power Solutions solution set includes standard and custom power converters and custom miniature (hybrid) electronic circuits for applications across various markets including commercial, space and military aerospace and fiber optics. Facilities are located in Redmond and Lynnwood, Washington; Ft. Walton Beach, Florida; and Kaohsiung, Taiwan.

Our Microwave Systems solution set includes sophisticated electronic radio frequency components and subsystems. These products are used in defense electronics applications that include radar, electronic warfare suites, communications systems and data links. We supply many U.S. Department of Defense prime contractors and foreign allied defense organizations with products that enable missile seekers and guidance systems, aircraft sensors for tactical and intelligence applications, surveillance and reconnaissance missions, communications and self-protect capabilities for naval vessels, sensors and communications capability on unmanned aerial systems and applications for mounted and dismounted land combat troops. Facilities are located in Beverly, Massachusetts; and Chandler, Arizona.

Our Microelectronics solution set, headquartered in Redmond, Washington, designs, manufactures and sells custom miniature (hybrid) electronic circuits for applications in commercial, space and military aerospace, fiber optics and medical industries.

The Aerospace & Electronics segment employed approximately 2,400 people and had assets of $436 million at December 31, 2009. The order backlog totaled $351.0 million and $418.4 million at December 31, 2009 and 2008, respectively.

## Engineered Materials

The Engineered Materials segment is largely comprised of the Crane Composites fiberglass-reinforced plastic panel business. The segment also includes the Polyflon business.

Crane Composites manufactures fiberglass-reinforced plastic panels for the transportation industry, in refrigerated and dry-van trailers and truck bodies, RVs, industrial building applications and the commercial construction industry for food processing, restaurants and supermarket applications. Crane Composites sells the majority of its products directly to trailer and RV manufacturers and uses distributors and retailers to serve the commercial construction market. Since the fourth quarter of 2008, Crane Composites closed three facilities in connection with manufacturing consolidation initiatives. Crane Composites manufacturing facilities are located in Joliet, Illinois; Jonesboro, Arkansas; Florence, Kentucky; Goshen, Indiana; and Alton, Hampshire, United Kingdom.

Noble Composites, Inc. ( Noble ) was acquired in September 2006 and, during 2007, was integrated into Crane Composites. Noble specializes in the manufacture and sale of premium, high-gloss finished composite panels used by RV manufacturers. Noble s manufacturing facility is located in Goshen, Indiana. In September 2007, we acquired the composite panel business of Owens Corning, which produces high gloss fiberglass-reinforced plastic panels used by manufacturers of RVs. The acquired business was integrated into the Noble business during 2008.

Polyflon is a manufacturer of specialty components and materials, primarily microwave substrates utilized in antenna applications. Polyflon is located in Norwalk, Connecticut.

The Engineered Materials segment employed approximately 600 people and had assets of $262 million at December 31, 2009. The order backlog totaled $12.1 million and $6.9 million at December 31, 2009 and 2008, respectively.

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## Merchandising Systems

The Merchandising Systems segment is divided into two groups, Vending Solutions and Payment Solutions, both of which were significantly expanded in 2006 with our investment of over $200 million for the acquisitions of four complementary businesses.

Our Vending Solutions business, which is primarily engaged in the design and manufacture of vending equipment and related solutions, creates customer value through innovation by improving consumer experience and store profitability. Our products are sold to vending operators and food and beverage companies throughout the world. Vending Solutions has leading positions in both the direct and indirect distribution channels. Our solutions include vending management software to help customers operate their businesses more profitably, become more competitive and free cash for continued business investment. During 2009, facility consolidation activities resulted in the closure of the St. Louis, Missouri manufacturing facility. Major production facilities for Vending Solutions are located in Williston, South Carolina and Chippenham, England.

Our Payment Solutions business provides high technology products serving four global vertical markets: Retail, Vending, Gaming and Transportation. Our payment systems solutions for these markets include coin accepters and dispensers, bill validators and bill recyclers. Major facilities are located in Buxtehude, Germany; Concord, Ontario, Canada; Kiev, Ukraine; and Salem, New Hampshire.

The Merchandising Systems segment employed approximately 1,500 people and had assets of $297 million at December 31, 2009. Order backlog totaled $23.5 million and $23.4 million at December 31, 2009 and 2008, respectively.

## Fluid Handling

The Fluid Handling segment consists of the Crane Valve Group ( Valve Group ), Crane Pumps & Systems and Crane Supply. The Valve Group business units are as follows: Crane ChemPharma Flow Solutions, Crane Energy Flow Solutions and Building Services & Utilities. During 2009, Crane Valve Services was made a part of Crane Energy Flow Solutions in order to better serve our global customers in the nuclear power market.

The Valve Group, with manufacturing facilities in the United States as well as operations in Australia, Belgium, Canada, China, England, Finland, France, Germany, Hungary, India, Indonesia, Italy, Japan, Korea, Mexico, the Netherlands, Northern Ireland, Singapore, Slovenia, Spain, Sweden, Taiwan, United Arab Emirates and Wales, sells a wide variety of industrial and commercial valves, corrosion-resistant plastic-lined pipe, pipe fittings, couplings, connectors and actuators and provides valve testing, parts and services for the chemical processing, pharmaceutical, oil and gas, power, nuclear, mining, waste management, general industrial and commercial construction industries. Products are sold under the trade names Crane, Saunders, Jenkins, Pacific, Xomox, Krombach, DEPA, ELRO, REVO, Flowseal, Centerline, Stockham, Wask, Viking Johnson, Hattersley, Nabic, Sperryn, Wade, Rhodes, Brownall, Resistoflex and Duochek.

The Krombach Group of Companies ( Krombach ) was acquired in December 2008 and has been integrated into our Crane Energy Flow Solutions business unit. Krombach manufactures specialty

valve flow solutions for the power, oil and gas, and chemical markets which complement our product offering in our global power and energy infrastructure business, particularly for larger diameter, highly-engineered valves. In addition to Krombach s manufacturing and headquarters location in Germany, Krombach currently has foundry, machining and assembly facilities in Slovenia and China.

Delta Fluid Products Limited ( Delta ) was acquired in September 2008 and has been integrated into our Building Services & Utilities business unit. Delta designs and manufactures products for the natural gas and building services markets which are complementary to Crane's Building Services & Utilities product lines. Delta s office and manufacturing operation is located in St. Helens, England.

Crane Pumps & Systems manufactures pumps under the trade names Deming, Weinman, Burks and Barnes. Pumps are sold to a broad customer base that includes industrial, municipal, and commercial water and wastewater, commercial heating, ventilation and air-conditioning industries and original equipment manufacturers and military applications. Crane Pumps & Systems has facilities in Piqua, Ohio; Bramalea, Ontario, Canada; and Zhejiang, China.

Crane Supply, a distributor of valves, fittings, piping and plumbing supplies maintains 31 distribution facilities throughout Canada.

The Fluid Handling segment employed approximately 5,000 people and had assets of $832 million at December 31, 2009. Order backlog totaled $249.9 million and $302.7 million at December 31, 2009 and 2008, respectively.

## Controls

The Controls segment provides customer solutions for sensing and control applications and has special expertise in control solutions for difficult and hazardous environments. It includes five businesses: Barksdale (ride-leveling, air-suspension control valves; pressure, temperature and level sensors), Dynalco (safe instruments and controls for industrial engine monitoring and protection), Azonix (ultra-rugged computers, mobile rugged displays, measurement and control systems and intelligent data acquisition products), Crane Environmental (specialized water purification solutions), and Crane Wireless Monitoring Solutions (wireless sensor networks and covert radio products).

The Controls segment employed approximately 400 people and had assets of $70 million at December 31, 2009. Order backlog totaled $28.0 million and $30.5 million at December 31, 2009 and 2008, respectively.

## Acquisitions

We have completed 12 acquisitions since the beginning of 2005.

On February 3, 2010, we completed the acquisition of Merrimac Industries Inc. ( Merrimac ), a designer and manufacturer of RF Microwave components, subsystem assemblies and micro-multifunction modules, by means of a cash tender offer and subsequent merger. Merrimac s 2009 sales were approximately $32 million, and the aggregate purchase price was approximately $56 million in cash. Merrimac will be integrated into the Electronics Group within our Aerospace & Electronics segment.

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During 2008, we completed two acquisitions at a total cost of $79 million in cash and the assumption of $17 million of net debt. Goodwill for the 2008 acquisitions amounted to $14 million.

In December 2008, we acquired all of the capital stock of Krombach. Krombach is a leading manufacturer of specialty valve flow solutions for the power, oil and gas, and chemical markets. Krombach s 2008 full year sales were approximately $100 million, and the purchase price was $51 million in cash and the assumption of $17 million of net debt. Krombach was integrated into the Energy Flow Solutions business within our Fluid Handling segment.

In September 2008, we acquired all of the capital stock of Delta, a leading designer and manufacturer of regulators and fire safe valves for the gas industry, and safety valves and air vent valves for the building services market, for $28 million in cash. Delta had full year sales of $39 million in 2008 and was integrated into the Building Services & Utilities business within our Fluid Handling segment.

During 2007, we completed two acquisitions at a total cost of $65 million. Goodwill for the 2007 acquisitions amounted to $29 million.

In September 2007, we acquired the composite panel business of Owens Corning, which produces, among other products, high gloss fiberglass reinforced plastic panels used in the manufacture of RVs. The purchase price was $38 million in cash. The acquired business had $40 million of sales in 2006 and was integrated into the Noble Composites business within our Engineered Materials segment.

In August 2007, we acquired the Mobile Rugged Business of Kontron America, Inc. ( MRB ), which produces computers, electronics and flat panel displays for harsh environment applications. The purchase price was $26.6 million. The acquired business had sales of $25 million in 2006 and was integrated into the Azonix business within our Controls segment.

During 2006, we completed five acquisitions at a total cost of $283 million. Goodwill for the 2006 acquisitions amounted to $148 million.

In January 2006, we acquired substantially all of the assets of CashCode Co. Inc. ( CashCode ), a manufacturer of bill validators, storage and recycling devices for use in a variety of niche applications in vending, gaming, retail and transportation industries, for $86 million in cash. CashCode had sales of $48 million in 2005. CashCode is located in Concord, Ontario, Canada and Kiev, Ukraine, 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 Payment Solutions business within our Merchandising Systems segment.

In June 2006, we acquired all of the outstanding capital stock of Telequip Corporation ( Telequip ) for a cash purchase price of $45 million. Telequip, with headquarters in Salem, New Hampshire, has manufactured coin dispensing solutions since 1974. Telequip provides embedded and free-standing coin dispensing solutions principally focused on applications in supermarkets, convenience stores, quick-service restaurants and self-checkout and kiosk equipment markets. Telequip had total annual sales of $20 million in 2006. Telequip was integrated into the Payment Solutions business within our Merchandising Systems segment.

In June 2006, we acquired certain assets of Automatic Products International ( AP ), a privately held manufacturer of vending equipment. In September 2006, additional assets of AP were acquired and a second payment made for a total purchase price of $30 million. The acquisition included AP s extensive distribution network, product line designs and trade names, manufacturing equipment, aftermarket parts business, inventory and other related assets. The purchase did not include AP s manufacturing facility located in St. Paul, Minnesota. AP equipment production was consolidated into the Vending Solutions business in our Merchandising Systems segment. AP had total annual sales of $40 million in 2006.

In September 2006, we acquired all the outstanding capital stock of Noble Composites, Inc. ( Noble ) for a cash purchase price of $72 million. Noble, located in Goshen, Indiana, specializes in the manufacture and sale of premium, high-gloss finished composite panels for use by RV manufacturers. Noble had annual sales of $37 million in 2005. Noble was integrated into our Engineered Materials segment.

In October 2006, we acquired all of the outstanding capital stock of Dixie-Narco Inc. ( Dixie-Narco ) for a purchase price of $46 million in cash. Dixie-Narco is the largest can/bottle merchandising equipment manufacturer in the world. Dixie-Narco s customers include the major soft drink companies; in addition, equipment is marketed to global vending operators. Dixie-Narco had total annual sales of $155 million in 2006.

Dixie-Narco was integrated into the Vending Solutions business in our Merchandising Systems segment.

During 2005, we completed two acquisitions at a total cost of $9 million. Goodwill for the 2005 acquisitions amounted to $5 million.

## Divestitures

During 2009, we sold General Technology Corporation ( GTC ) to IEC Electronics Corp. for $14.2 million. GTC, also known as Crane Electronic Manufacturing Services, was included in our Aerospace & Electronics segment, as part of the Electronics Group. GTC had $26 million in sales in 2009 and is located in Albuquerque, New Mexico.

In December 2007, together with our partner, Emerson Electric Co., we sold the Industrial Motion Control, LLC ( IMC ) joint venture, generating proceeds to us of $33 million. Our investment in IMC was $29 million, and we recorded income in 2007 and 2006 of $5.3 million and $5.6 million, respectively.

In April 2006, we completed the sale of the outstanding capital stock of Westad Industri A/S ( Westad ), a small specialty valve business located in Norway. This business had $25 million in sales in 2005. Westad was included in our Fluid Handling segment. In May 2006, we 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 our Aerospace & Electronics segment.

## Cost Reduction Activities

During the fourth quarter of 2008, in response to disruptions in the credit markets and a substantially weakening global economy, we initiated broad-based restructuring actions in order to align our cost base to expected lower levels of demand. These actions included headcount reductions and select facility consolidations. As a result, in the fourth quarter of 2008, we recorded pre-tax restructuring and related charges in the business segments totaling $40.7 million which, at the end of 2008, correlated to an estimated pre-tax savings of $37 million for 2009. Together with an anticipated $25 million reduction in Aerospace engineering spending, along with other general expense cost reduction efforts, we expected, at the end of 2008, aggregate full year 2009 savings of $75 million.

During 2009, as sales levels declined further than expected, we continually accelerated our productivity programs to ensure our cost base was sized appropriately and to maximize cash flow. Based on the traction of our cost savings initiatives, including substantial reductions in engineering expense and other general expense categories, we raised our initial 2009 savings target from $75 million to in excess of $150 million for the full year. We exceeded our revised target, achieving full-year savings of approximately $175 million, or 8% of 2009 total sales.

Since December 2007, excluding the impact of acquisitions and divestitures, total headcount has been reduced by approximately 2,300, or 20%.

During the fourth quarter of 2007, we commenced implementation of a restructuring program designed to further enhance operating margins in the Fluid Handling segment. The planned actions included ceasing the manufacture of malleable iron and bronze fittings at our foundry operating facilities in the UK and Canada, respectively, and exiting both facilities and transferring production to China. In December 2007, pursuant to this program, we sold our foundry facility in the UK, generating a pre-tax gain of $28 million.

For additional segment level information related to restructuring activities, you should refer to the information set forth under the caption, Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this report, as well as in Part II, Item 8 under Note 16, Restructuring to the Consolidated Financial Statements.

## Competitive Conditions

Our lines of business are conducted under highly competitive conditions in each of the geographic and product areas they serve. Because of the diversity of the classes of products manufactured and sold, they do not compete with the same companies in all geographic or product areas. Accordingly, it is not possible to estimate the precise number of competitors or to identify our competitive position, although we believe that we are a principal competitor in most of our markets. Our principal method of competition is production of quality products at competitive prices in a timely and efficient manner.

Our products have primary application in the aerospace, defense electronics, RV, transportation, automated merchandising, chemical, pharmaceutical, oil, gas, power, nuclear, building services and utilities. As such, our revenues are dependent upon numerous unpredictable factors, including changes in market demand, general economic conditions and capital spending. Because these products are also sold in a wide variety of markets and applications, we do not believe we can reliably quantify or predict the possible effects upon our business resulting from such changes.

Our engineering and product development activities are directed primarily toward improvement of existing products and adaptation of existing products to particular customer requirements as well as the development of new products. While we own numerous patents, trademarks, copyrights, trade secrets and licenses to intellectual property, none are of such importance that termination would materially affect our business. From time to time, however, we do engage in litigation to protect our intellectual property.

## Research and Development

Research and development costs are expensed when incurred. These costs were $98.7 million, $153.4 million and $106.8 million in 2009, 2008 and 2007, respectively, and were incurred primarily by the Aerospace & Electronics segment. Funds received from customer-sponsored research and development projects were $8.1 million, $15.5 million and $8.4 million in 2009, 2008 and 2007 respectively, and were recorded in net sales.

## Our Customers

No customer accounted for more than 10% of our consolidated revenues in 2009, 2008 or 2007.

## Raw Materials

Our manufacturing operations employ a wide variety of raw materials, including steel, copper, cast iron, electronic components, aluminum, plastics and various petroleum-based products. We purchase raw materials from a large number of independent sources around the world. Although market forces have generally caused increases in the costs of steel and petroleum-based products, there have been no raw materials shortages that have had a material adverse impact on our business, and we believe that we will generally be able to obtain adequate supplies of major raw material requirements or reasonable substitutes at reasonable costs.

## Seasonal Nature of Business

Our business does not experience significant seasonality.

## Government Contracts

We have agreements relating to the sale of products to government entities, primarily involving products in our Aerospace & Electronics business segment and our Fluid Handling business segment. As a result, we are subject to various statutes and regulations that apply to companies doing business with the government. The laws and regulations governing government contracts differ from those governing private contracts. For example, many government contracts require disclosure of cost and pricing data and impose certain sourcing conditions that are not applicable to private contracts. Our failure to comply with these laws could result in suspension of these contracts, criminal or civil sanctions, administrative penalties and fines or suspension or debarment from government contracting or subcontracting for a period of time. For example, as previously disclosed, we sold certain valves made by our Fluid Handling segment to private customers that ultimately were delivered to U.S. military agencies which did not conform to certain contractual specifications relating to the place of manufacture and the origin of component parts. Subsequent to a U.S. Government investigation, in July 2007, we executed a settlement agreement with the Department of Justice providing for, among other things, the payment of $7.6 million to the United States. For a further discussion of risks related to compliance with government contracting requirements, please refer to Item 1A. Risk Factors.

See Part I, Item 3 Legal Proceedings regarding certain costs of compliance with federal, state and local laws and regulations involving the discharge of materials into the environment or otherwise relating to the protection of the environment.

## Financing

In September 2007, we entered into a five-year, $300 million Amended and Restated Credit Agreement (the facility ), which is due to expire on September 26, 2012. This facility amends and restates the five-year $450 million revolving credit agreement entered into on January 21, 2005, which included a $150 million term loan component that was terminated by the Company in May 2005. The facility allows us to borrow, repay, or to the extent permitted by the agreement, prepay and re-borrow at any time prior to the stated maturity date, and the loan proceeds may be used for general corporate purposes including financing for acquisitions. The original facility was amended and restated to capitalize on favorable bank market conditions and to extend the maturity of the facility. In December 2008, we executed Amendment No. 1 to the facility for the purpose of removing a representation regarding our pension liability and to amend certain other terms. Interest is based on, at our option, (1) a LIBOR-based formula that is dependent in part on the Company s credit rating (LIBOR plus 105 basis points as of the date of this Report; up to a maximum of LIBOR plus 145 basis points), or (2) the greatest of (i) the JPMorgan Chase Bank, N.A. s prime rate, (ii) the Federal Funds rate plus 50 basis points, (iii) a formula based on the three-month CD Rate plus 100 basis points or (iv) an adjusted LIBOR rate plus 100 basis points. The facility was only used for letter of credit purposes in 2009, and was not used in 2008 or 2007. The facility contains customary affirmative and negative covenants for credit facilities of this type, including the absence of a material adverse effect and limitations on us and our subsidiaries with respect to indebtedness, liens, mergers, consolidations, liquidations and dissolutions, sales of all or substantially all assets, transactions with affiliates and hedging arrangements. The facility also provides for customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, the fact that any representation or warranty made by us is false in any material respect, default under certain other indebtedness, certain insolvency or receivership events affecting us and our subsidiaries, certain ERISA events, material judgments and a change in control. The agreement contains a leverage ratio covenant requiring a ratio of total debt to total capitalization of less than or equal to 65%. At December 31, 2009, our ratio was 31%.

In November 2006, we issued notes having an aggregate principal amount of $200 million. The notes are unsecured, senior obligations that mature on November 15, 2036 and bear interest at 6.55% per annum, payable semi-annually on May 15 and November 15 of each year. The notes have no sinking fund requirement but may be redeemed, in whole or part, at our option. These notes do not contain any material debt covenants or cross default provisions. If there is a change in control, and if as a consequence, the notes are rated below investment grade by both Moody s Investors Service and Standard & Poor s, then holders of the Notes may require us to repurchase them, in whole or in part, for 101% of the principal amount plus accrued and unpaid interest.

In September 2003, we issued $200 million of 5.50% notes that mature on September 15, 2013. The notes are unsecured, senior obligations with interest payable semi-annually on March 15 and September 15 of each year. The notes have no sinking fund requirement but may be redeemed, in whole or in part, at our option. These notes do not contain any material debt covenants or cross default provisions.

## Available Information

We make available free of charge through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after filing such material electronically with, or furnishing such material to the U.S. Securities and Exchange Commission. Also posted on our website are our Corporate Governance Guidelines, Standards for Director Independence, the Summary of the Board of Directors Committees, the charters of each of the Audit Committee, the Management Organization and Compensation Committee and the Nominating and Governance Committee, and the Crane Co. Code of Ethics. These items are available in the Investors Corporate Governance section of our website at www.craneco.com. The content of our website is not part of this report.

## Executive Officers of the Registrant

| Name | Position | Business Experience During Past Five Years | Age | Executive Officer Since |
|---|---|---|---|---|
| Eric C. Fast | President and Chief Executive Officer | President and Chief Executive Officer and a Director of the Company since April 2001. President and Chief Operating Officer from September 1999 to April 2001. | 60 | 1999 |
| David E. Bender | Group President, Electronics | President, Electronics Group of Crane Aerospace & Electronics segment of the Company since December 2005. Vice President, Operations, Aerojet General Corporation, a division of GenCorp, from 2004 to 2005. Executive Vice President GDX Automotive, a division of GenCorp, from 2003 to 2004. | 50 | 2007 |
| Thomas J. Craney | Group President, Engineered Materials | Group President, Engineered Materials segment of the Company since May 2007. From 1979 to 2007, with Owens Corning, most recently Vice President of Sales, North American Building Materials from 2005 to 2007 and Vice President, General Manager, Commercial and Industrial Insulation business from 2000 to 2005. | 54 | 2007 |
| Augustus I. duPont | Vice President, General Counsel and Secretary | Vice President, General Counsel and Secretary of the Company since 1996. | 58 | 1996 |
| Bradley L. Ellis | Group President, Merchandising Systems and Vice President, Crane Business System | Vice President, Crane Business System since March 2009. Group President, Crane Merchandising Systems segment of the Company since December 2003. | 41 | 2000 |
| Elise M. Kopczick | Vice President, Human Resources | Vice President, Human Resources of the Company since January 2001. | 56 | 2001 |
| Andrew L. Krawitt | Vice President, Treasurer | Vice President, Treasurer of the Company since September 2006. From 1998 to 2006 with PepsiCo, most recently Director, Financial Planning & Analysis from May 2005 to September 2006; Region Finance Director, Frito-Lay Division from January 2003 to May 2005. | 44 | 2006 |
| Timothy J. MacCarrick | Vice President, Chief Financial Officer | Vice President, Chief Financial Officer of the Company since July 2008. Corporate Vice President and Vice President, Finance, Xerox North America from 2006 to July 2008; Chief Financial Officer, Xerox Europe from 2003 to 2006. | 44 | 2008 |
| Richard A. Maue | Vice President, Controller | Vice President, Controller and Chief Accounting Officer of the Company since August 2007. Vice President, Controller and Chief Accounting Officer of Paxar Corporation from July 2005 to August 2007. Director, Internal Audit Practice at Protiviti, Inc. from June 2003 to July 2005. | 39 | 2007 |

| | | | | |
|---|---|---|---|---|
| Max H. Mitchell | Group President, Fluid Handling | Group President, Fluid Handling segment of the Company since April 2005. Vice President, Operational Excellence of the Company from March 2004 to April 2005. From 2001 to 2004, Senior Vice President of Global Operations for the Pentair Tool Group. | 45 | 2004 |
| Thomas M. Noonan | Vice President, Taxes | Vice President, Taxes of the Company since November 2001. | 55 | 1999 |
| Anthony D. Pantaleoni | Vice President, Environment, Health and Safety | Vice President, Environment, Health and Safety of the Company since 1989. | 55 | 1989 |

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| Name | Position | Business Experience During Past Five Years | Age | Executive Officer Since |
|---|---|---|---|---|
| Thomas J. Perlitz | Vice President, Corporate Strategy and Group President, Controls | Vice President, Corporate Strategy since March 2009 and Group President, Crane Controls since October 2008. From 2005 to 2009, Vice President, Operational Excellence. From 1995 to 2005 with subsidiaries of Danaher Corp. (manufacturer of instrumentation, tools and components), most recently Vice President, Global Marketing and Engineering-Imaging of KaVo Dental, Lake Zurich, IL (dental imaging products) from August 2004 to August 2005; Director of Worldwide Service, Fluke Corporation, Everett, WA (electronic and electrical test tools) from February 2002 to August 2004. | 41 | 2005 |
| Curtis P. Robb | Vice President, Business Development | Vice President, Business Development of the Company since June 2005. From 2003 to 2005, founder and Managing Director of Robb Associates, LLP (financial advisory services). | 55 | 2005 |
| Michael Romito | Group President, Aerospace | President, Aerospace Group of Crane Aerospace & Electronics segment of the Company since March 2009. Consultant to several divisions of Alliant Techsystems, Inc. from 2006 to 2009. Various positions, most recently Group Vice President, Marketing and Customer Support, at Parker Hannifan from 1990 to 2006. | 59 | 2009 |

# Item 1A. Risk Factors.

The following is a description of what we consider the key challenges and risks confronting our business. This discussion should be considered in conjunction with the discussion under the caption Forward-Looking Information preceding Part I, the information set forth under Item 1, Business and with the discussion of the business included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. These risks comprise the material risks of which we are aware. If any of the events or developments described below or elsewhere in this Annual Report on Form 10-K, or in any documents that we subsequently file publicly were to occur, it could have a material adverse effect on our business, financial condition or results of operations.

## Risks Relating to Our Business

### We are subject to numerous lawsuits for asbestos-related personal injury, and costs associated with these lawsuits may adversely affect our results of operations, cash flow and financial position.

We are subject to numerous lawsuits for asbestos-related personal injury. Estimation of our ultimate exposure for asbestos-related claims is subject to significant uncertainties, as there are multiple variables that can affect the timing, severity and quantity of claims. Our estimate of the future expense of these claims is derived from assumptions with respect to future claims, settlement and defense costs which are based on experience during the last few years and which may not prove reliable as predictors. A significant upward or downward trend in the number of claims filed, depending on the nature of the alleged injury, the jurisdiction where filed and the quality of the product identification, or a significant upward or downward trend in the costs of defending claims, could change the estimated liability, as would substantial adverse verdicts at trial or on appeal. A legislative solution or a structured settlement transaction could also change the estimated liability. These uncertainties may result in our incurring future charges or increases to income to adjust the carrying value of recorded liabilities and assets, particularly if the number of claims and settlements and defense costs escalates or if legislation or another alternative solution is implemented; however, we are currently unable to predict such future events. The resolution of these claims may take many years, and the effect on results of operations, cash flow and financial position in any given period from a revision to these estimates could be material.

As of December 31, 2009, we were one of a number of defendants in cases involving approximately 66,000 pending claims filed in various state and federal courts that allege injury or death as a result of exposure to asbestos. See Note 11 of the Notes to our Consolidated Financial Statements for additional information on:

- Our pending claims;
- Our historical settlement and defense costs for asbestos claims;
- The liability we have recorded in our financial statements for pending and reasonably anticipated asbestos claims through 2017;
- The asset we have recorded in our financial statements related to our estimated insurance coverage for asbestos claims; and
- Uncertainties related to our net asbestos liability.

We have recorded a liability for pending and reasonably anticipated asbestos claims through 2017, and while it is probable that we will incur additional liabilities for asbestos claims after 2017, which additional liabilities may be significant, we cannot reasonably estimate the amount of such additional liabilities at this time. In the third quarter 2007, we updated and extended the estimate of our asbestos liability and recorded an additional pre-tax provision of approximately $390 million, which includes a corresponding insurance receivable.

Current economic conditions may harm our business, results of operations and stock price.

Beginning in the second half of 2008, the U.S. and global economies slowed dramatically as a result of a variety of problems, including turmoil in the credit and financial markets, concerns regarding the stability and viability of major financial institutions, the state of the housing markets and volatility in fuel prices and worldwide stock markets. Given the significance and widespread nature of these nearly unprecedented circumstances, the U.S. and global economies could remain significantly challenged in a recessionary state for an indeterminate period of time. While currently these conditions have not impaired our ability to access credit markets and finance our operations, there can be no assurance that there will not be a further deterioration in financial markets and confidence in the global industrial markets that we serve. Continued restrictions on credit availability could adversely affects the ability of our customers to obtain financing for significant purchases and could result in further decreases in or cancellation of orders for our products and services as well as impact the ability of our customers to make payments. Similarly, continued credit restrictions may adversely affect our supplier base and increase the potential for one or more of our suppliers to experience financial distress or bankruptcy. These conditions would harm our business by adversely affecting our revenues, results of operations, cash flows and financial condition. See Specific Risks Relating to Our Business Segments , below.

As of December 31, 2009, we had $787 million of goodwill and intangible assets with indefinite lives. The aforementioned disruptions in the credit markets and concerns about global economic growth have continued to impact our operating results in 2009. As of December 31, 2009, there was no impairment of these assets. However, declines in our stock price and market capitalization, reduced future cash flow estimates within specific businesses, and slower growth rates in our target markets are all factors that may indicate that the carrying value of our goodwill and other long-lived assets may not be recoverable and, accordingly, could result in material noncash impairment charges at some point in the future.

Our operations expose us to the risk of environmental liabilities, costs, litigation and violations that could adversely affect our financial condition, results of operations, cash flow and reputation.

Our operations are subject to environmental laws and regulations in the jurisdictions in which they operate, which impose limitations on the discharge of pollutants into the ground, air and water and establish standards for the generation, treatment, use, storage and disposal of solid and hazardous wastes. We must also comply with various health and safety regulations in the United States and abroad in connection with our operations. Failure to comply with any of these laws could result in civil and criminal, monetary and non-monetary penalties and damage to our reputation. In addition, we cannot provide assurance that our costs related to remedial efforts or alleged environmental damage associated with past or current waste disposal practices or other hazardous materials handling practices will not exceed our estimates or adversely affect our financial condition, results of operations and cash flow. For example, during 2008 and 2007, we recorded charges of $24 million and $19 million, respectively, related to increases in our expected liability at our Goodyear, Arizona Superfund site pursuant to continuing changes in site conditions.

Our businesses are subject to extensive governmental regulation; failure to comply with those regulations could adversely affect our financial condition, results of operations, cash flow and reputation.

Primarily in our Aerospace & Electronics and Fluid Handling segments, we are required to comply with various import and export control laws, which may affect our transactions with certain customers. In certain circumstances, export control and economic sanctions regulations may prohibit the export of certain products, services and technologies, and in other circumstances we may be required to obtain an export license before exporting the controlled item. We are also subject to investigation and audit for compliance with the requirements governing government contracts, including requirements related to procurement integrity, export control, employment practices, the accuracy of records and the recording of costs. A failure to comply with these requirements might result in suspension of these contracts and suspension or debarment from government contracting or subcontracting. In addition, failure to comply with any of these regulations could result in civil and criminal, monetary and non-monetary penalties, fines, disruptions to our business, limitations on our ability to export products and services, and damage to our reputation. For example, in the 2007 third quarter, we recorded a $7.6 million charge related to a civil false claims proceeding by the U.S. Government. See the Civil False Claims Settlement section under Item 7.

Pension expense and pension contributions associated with the Company s retirement benefit plans may fluctuate significantly depending upon changes in actuarial assumptions and future market performance of plan assets.

A significant portion of our current and retired employee population is covered by pension and post-retirement benefit plans, the costs of which are dependent upon various assumptions, including estimates of rates of return on benefit related assets, discount rates for future payment obligations, rates of future cost growth and trends for future costs. In addition, funding requirements for benefit obligations of our pension and post-retirement benefit plans are subject to legislative and other government regulatory actions. Variances from these estimates could have a significant impact on our consolidated financial position, results of operations, and cash flow.

In 2009, we contributed $33 million into our defined benefit pension plans compared to $10 million in 2008. The increase in contributions primarily relates to higher contributions to our U.S. defined benefit plan to comply with certain Pension Protection Act provisions and resulted in part from declines in the market value of investments during 2008. Of the $33 million, $17 million was contributed to our U.S. defined-benefit plan in December on a discretionary basis to improve the funded status of this plan and to reduce future expected contributions. Our 2009 expense was $18 million higher than in 2008.

Demand for our products is variable and subject to factors beyond our control, which could result in unanticipated events significantly impacting our results of operations.

A substantial portion of our sales is concentrated in industries that are cyclical in nature or subject to market conditions which may cause customer demand for our products to be volatile. These industries often are subject to fluctuations in domestic and international economies as well as to currency fluctuations and inflationary pressures. Reductions in the business levels of these industries would reduce the sales and profitability of the affected business segments. In our Aerospace & Electronics segment, for example, a significant decline in demand for air travel, or a decline in airline profitability generally, could result in reduced orders for aircraft and could also cause airlines to reduce their purchases of repair parts from our businesses. Our aerospace businesses could also be impacted to the extent that major aircraft manufacturers encountered production problems, or if pricing pressure from aircraft customers caused the manufacturers to press their suppliers to lower prices. In our Engineered Materials segment, sales and profits have been affected by declines in demand for truck trailers, RVs, or building products. In our Fluid Handling segment, further slowing of the economy or major markets could reduce sales and profits, particularly if projects for which these businesses are suppliers or bidders are cancelled or delayed. Results in our Controls segment could decline because of an unanticipated decline in demand for the businesses products from the oil and gas or heavy truck markets, or from unforeseen product obsolescence. Results at our Merchandising Systems business have been and will continue to be affected by employment levels, office occupancy rates and factors affecting vending operator profitability such as fuel, confection and borrowing costs.

We may be unable to improve productivity, reduce costs and align manufacturing capacity with customer demand.

We are committed to continuous productivity improvement and continue to evaluate opportunities to reduce costs, simplify or improve global processes, and increase the reliability of order fulfillment and satisfaction of customer needs. During the fourth quarter of 2008, in response to disruptions in the credit markets and a substantially weakened global economy, we initiated broad-based restructuring actions in order to align our cost base to then expected lower levels of demand. At that time, we anticipated a 7% core revenue decline for 2009. During 2009, our sales declined further than we anticipated, with core revenues declining by 17%, or $435 million from 2008. In response, we continuously accelerated our cost savings initiatives and reduced our cost base by approximately $175 million, well ahead of our goal. While we exceeded our 2009 savings objective, and considering in particular the current uncertainty in the U.S. and global economies, our failure to continue to anticipate further declines in global demand for our products and services and properly align our cost base would have an adverse effect on our financial condition, results of operations and cash flow.

We may be unable to successfully develop and introduce new products, which would limit our ability to grow and maintain our competitive position and adversely affect our financial condition, results of operations and cash flow.

Our growth depends, in part, on continued sales of existing products, as well as the successful development and introduction of new products, which face the uncertainty of customer acceptance and reaction from competitors. Any delay in the development or launch of a new product could result in our not being the first to market, which could compromise our competitive position. Further, the development and introduction of new products may require us to make investments in specialized personnel and capital equipment, increase marketing efforts and reallocate resources away from other uses. We also may need to modify our systems and strategy in light of new products that we develop. If we are unable to develop and introduce new products in a cost-effective manner or otherwise manage effectively the operations related to new products, our results of operations and financial condition could be adversely impacted.

The prices of our raw materials can fluctuate dramatically, which may adversely affect our profitability.

The costs of certain raw materials that are critical to our profitability are volatile. This volatility can have a significant impact on our profitability. In our Engineered Materials segment, for example, profits could be adversely affected by unanticipated increases in resin and fiberglass material costs and by the inability on the part of the businesses to maintain their position in product cost and functionality against competing materials. The costs in our Fluid Handling and Merchandising Systems segments similarly are affected by fluctuations in the price of metals such as steel. While we have taken actions aimed at securing an adequate supply of raw materials at prices which are favorable to us, if the prices of critical raw materials increase, our operating costs could be negatively affected.

Our ability to obtain parts and raw materials from our suppliers is uncertain, and any disruptions or delays in our supply chain could negatively affect our results of operations.

Our operations require significant amounts of important parts and raw materials. We are engaged in a continuous, company-wide effort to concentrate our purchases of parts and raw materials on fewer suppliers, and to obtain parts from suppliers in low-cost countries where possible. As this effort progresses, we are exposed to an increased risk of disruptions to our supply chain, which could have a significant effect on our operating results. In addition, if we are unable to procure these parts or raw materials, our operations may be disrupted, or we could experience a delay or halt in certain of our manufacturing operations. We believe that our supply management and production practices are based on an appropriate balancing of the foreseeable risk and the costs of alternative practices. Nonetheless, supplier capacity constraints, supplier production disruptions, supplier financial condition, price volatility or the unavailability of some raw materials may have an adverse effect on our operating results and financial condition.

We may be unable to identify or to complete acquisitions, or to successfully integrate the businesses we acquire.

We have evaluated, and expect to continue to evaluate, a wide array of potential acquisition transactions. Our acquisition program

attempts to address the potential risks inherent in assessing the value, strengths, weaknesses, contingent or other liabilities, systems of internal control and potential profitability of acquisition candidates, as well as other challenges such as retaining the employees and integrating the operations of the businesses we acquire. Integrating acquired operations involves significant risks and uncertainties, including:

- Maintenance of uniform standards, controls, policies and procedures;

- Distraction of management s attention from normal business operations during the integration process;

- Expenses associated with the integration efforts; and

Unidentified issues not discovered in the due diligence process, including legal contingencies.

There can be no assurance that suitable acquisition opportunities will be available in the future, that we will continue to acquire businesses or that any business acquired will be integrated successfully or prove profitable, which could adversely impact our growth rate. Our ability to achieve our growth goals depends in part upon our ability to identify and successfully acquire and integrate companies and businesses at appropriate prices and realize anticipated cost savings.

We face significant competition which may adversely impact our results of operations and financial position in the future.

While we are a principal competitor in most of our markets, all of our markets are highly competitive. The competitors in many of our business segments can be expected in the future to improve technologies, reduce costs and develop and introduce new products, and the ability of our business segments to achieve similar advances will be important to our competitive positions. Competitive pressures, including those discussed above, could cause one or more of our business segments to lose market share or could result in significant price erosion, either of which could have an adverse effect on our results of operations.

We conduct a substantial portion of our business outside the United States and face risks inherent in non-domestic operations.

Net sales and assets related to our operations outside the United States were 40% and 33% in 2009, and 40% and 32% in 2008, respectively, of our consolidated amounts. These operations and transactions are subject to the risks associated with conducting business internationally, including the risks of currency fluctuations, slower payment of invoices, adverse trade regulations and possible social, economic and political instability in the countries and regions in which we operate.

We are dependent on key personnel, and we may not be able to retain our key personnel or hire and retain additional personnel needed for us to sustain and grow our business as planned.

Certain of our business segments and corporate offices are dependent upon highly qualified personnel, and we generally are dependent upon the continued efforts of key management employees. We may have difficulty retaining such personnel or locating and hiring additional qualified personnel. The loss of the services of any of our key personnel, many of whom are not party to employment agreements with us, or our failure to attract and retain other qualified and experienced personnel on acceptable terms could impair our ability to successfully sustain and grow our business, which could impact our results of operations in a materially adverse manner.

If our internal controls are found to be ineffective, our financial results or our stock price may be adversely affected.

We believe that we currently have adequate internal control procedures in place for future periods, however, increased risk of internal control breakdowns generally exists in a business environment that is decentralized. In addition, if our internal control over financial reporting is found to be ineffective, investors may lose confidence in the reliability of our financial statements, which may adversely affect our stock price.

## Specific Risks Relating to Our Business Segments

The macroeconomic climate represents one of the most significant risks for 2010 and could cause our customers across our business segments to delay, forego or reduce the amount of their investments in our products or delay payments of amounts due to us. In addition, declines in foreign currency exchange rates, primarily the euro, the British pound or the Canadian dollar, could adversely affect our reported results, primarily in our Fluid Handling and Merchandising Systems segments, as amounts earned in other countries are translated into U.S. dollars for reporting purposes.

### Aerospace & Electronics

A difficult U.S. economic environment continued to negatively impact the airline industry during 2009. Companies tightened corporate travel policies, resulting in a decline in business travel and a decrease in the percentage of full-fare purchases. Fuel prices also continued to impact the industry. Although fuel prices were lower overall than in 2008, prices remained much higher than long-term historical averages. These factors adversely impact the commercial aerospace industry as some larger domestic airline carriers have reduced service and capacity, including retiring their older and less fuel efficient aircraft, and cutting payroll costs; while several smaller carriers have either declared bankruptcy or ceased operations. In addition, these conditions have, in particular, depressed manufacturing activity specific to business and regional jets. Lower levels of air travel or a decline in airline profitability generally results in reduced aircraft orders and could also cause the airlines to scale back on more of their purchases of our commercial products, which represents a significant portion of the Aerospace & Electronics segment revenues. Our businesses could also be impacted to the extent that major aircraft manufacturers encounter production problems, or if pricing pressure from aircraft customers causes the manufacturers to press their suppliers to lower prices. Our sales and profits could also face erosion if pricing pressure from competitors increased; if finding new aerospace-qualified suppliers became more difficult; if required technical personnel became harder to hire and retain; if planned new aircraft programs were delayed while we incur engineering development expenses for related products; or if we are unable to effectively reduce our cost base in response to additional, unanticipated declines in demand for our products and services.

A portion of this segment s business is conducted under U.S. government contracts and subcontracts. These contracts are either competitively bid or sole source contracts. Competitively bid contracts are awarded after a formal bid and proposal competition

among suppliers. Sole source contracts are awarded when a single contractor is deemed to have an expertise or technology that is superior to that of competing contractors. A reduction in Congressional appropriations that affect defense spending or the ability of the U.S. government to terminate our contracts could impact the performance of this business.

In addition, we are required to comply with various export control laws, which may affect our transactions with certain customers. In certain circumstances, export control and economic sanctions regulations may prohibit the export of certain products, services and technologies, and in other circumstances we may be required to obtain an export license before exporting the controlled item. A failure to comply with these requirements might result in suspension of these contracts and suspension or debarment from government contracting or subcontracting. Failure to comply with any of these regulations could result in civil and criminal, monetary and non-monetary penalties, fines, disruptions to our business, limitations on our ability to export products and services, and damage to our reputation.

### Engineered Materials

In our Engineered Materials segment, sales and profits could continue to fall if there are further declines in demand for truck trailers, RVs and building products for which our businesses produce fiberglass-reinforced panels. We experienced declines in sales to RV manufacturers through 2009 as the RV industry continued to curtail production in response to a fall-off in demand from their customers. The industry attributes this downturn to continued restrictions on credit availability, generally weak consumer confidence and, to a lesser extent, higher gas prices and inventory reductions on dealer lots. While RV orders improved somewhat in late 2009, future demand remains uncertain. Similar to the RV market, we experienced declines in building products sales through 2009, driven largely by the depressed U.S. non-residential construction market and the industry expects further declines in 2010. In addition, profits could also be adversely affected by unanticipated increases in resin and fiberglass material costs, by the loss of a principal supplier or by any inability on the part of the businesses to maintain their product cost and functionality advantages when compared to competing materials.

The Company is also defending a series of five separate lawsuits, which have now been consolidated, revolving around a fire that occurred in May 2003 at a chicken processing plant located near Atlanta, Georgia that destroyed the plant. The aggregate damages demanded by the plaintiff, consisting largely of an estimate of lost profits which continues to grow with the passage of time, are currently in excess of $260 million. These lawsuits contend that certain fiberglass-reinforced plastic material manufactured by the Company that was installed inside the plant was unsafe in that it acted as an accelerant, causing the fire to spread rapidly, resulting in the total loss of the plant and property. In September 2009, the trial court entertained motions for summary judgment from all parties, and subsequently denied those motions. In November 2009, the Company sought and was granted permission to appeal the trial court s denial of its motions. The Company expects the appeal process to conclude in six to nine months. The trial will be stayed pending resolution of the appeal. The Company believes that it has valid defenses to the underlying claims raised in these lawsuits. The Company has given notice of these lawsuits to its insurance carriers and will seek coverage for any resulting losses. The Company s carriers have issued standard reservation of rights letters but are engaged with the Company s trial counsel to monitor the defense of these claims. If the plaintiffs in these lawsuits were to prevail at trial and be awarded the full extent of their claimed damages, and insurance coverage were not fully available, the resulting liability could have a significant effect on the Company s results of operations and cash flow in the periods affected.

### Merchandising Systems

Results at our Merchandising Systems businesses could be reduced by continued unfavorable economic conditions, including lower demand for our products and services, inflation and continued increases in fuel costs. In addition, delays in launching or supplying new products or an inability to achieve new product sales objectives, or unfavorable changes in gaming regulations affecting certain of our Payment Solutions customers would adversely affect our profitability, as would failure to reduce our cost base in response to further, unanticipated declines in demand for our products. Furthermore, any unanticipated operational inefficiencies resulting from consolidation activities would also adversely affect our profitability. Results at our foreign locations have been and will continue to be affected by fluctuations in the value of the euro, the British pound and the Canadian dollar versus the U.S. dollar.

### Fluid Handling

Our Fluid Handling businesses could face increased price competition from larger competitors. Further slowing of the economy or major markets could reduce sales and profits, particularly if projects for which these businesses are suppliers or bidders are cancelled or delayed. During 2009, we experienced slowing orders from short-cycle North American businesses as well as continued delays of several large valve projects into 2010. Continued weakness in short-cycle North American businesses and/or further delays in large valve projects may put further pressure on operating margins in the Fluid Handling segment. To the extent we are unable to effectively reduce our cost base in response to further, unanticipated declines in demand for our products, our operating results would be adversely affected. At our foreign operations, reported results in U.S. dollar terms could be eroded by a weakening of currency of the respective businesses, particularly where we operate using the euro, British pound and Canadian dollar.

### Controls

A number of factors could affect operating results in our Controls segment. Lower sales and earnings could result if our businesses cannot maintain their cost competitiveness, encounter delays in introducing new products or fail to achieve their new product sales objectives. Results could decline because of an unanticipated decline in demand for the businesses products from the industrial machinery, oil and gas or heavy equipment industries, or from unforeseen product obsolescence. A portion of this segment s business is subject to government rules and regulations. Failure to comply with these requirements might result in suspension or debarment from government contracting or subcontracting. Failure to comply with any of these regulations could result in civil and criminal, monetary and non-monetary penalties, disruptions to our business, limitations on our ability to export products and services, and damage to our reputation.

## Item 1B. Unresolved Staff Comments.

None

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PART I / ITEM 2

# Item 2. Properties.

| Total Manufacturing Facilities | Number | Area (sq.ft.) |
|---|---|---|
| Aerospace & Electronics | | |
| United States | 8 | 759,000 |
| International | 3 | 76,000 |
| Engineered Materials | | |
| United States | 9 | 905,000 |
| International | 1 | 31,000 |
| Merchandising Systems | | |
| United States | 8 | 1,174,000 |
| International | 4 | 199,000 |
| Fluid Handling | | |
| United States | 9 | 854,000 |
| International | 24 | 3,650,000 |
| Controls | | |
| United States | 6 | 238,000 |
| International | 1 | 27,000 |

| Leased Manufacturing Facilities | Lease Expiring Through | Number | Area (sq.ft.) |
|---|---|---|---|
| United States | 2015 | 14 | 562,000 |
| International | 2020 | 16 | 1,101,000 |

## Other Facilities

Aerospace & Electronics operates three leased service centers in the United States. This segment also operates two leased distribution centers outside the United States.

Engineered Materials operates four distribution centers in the United States, of which are three are leased. This segment also operates one leased service center in the United States.

Merchandising Systems operates six service centers; three in the United States, of which two are leased, and three outside the United States which are leased. This segment also operates nine distribution centers; four in the United States, which are leased, and five outside the United States, of which four are leased.

Fluid Handling operates 36 service centers; four in the United States, of which three are leased, and 32 outside the United States, of which 23 are leased. This segment also operates 47 distribution centers; three in the United States, of which one is leased, and 44 outside the United States, of which 24 are leased.

Controls operates three leased service centers in the United States.

Corporate has two leased properties in the United States.

In our opinion, these properties have been well maintained, are in good operating condition and contain all necessary equipment and facilities for their intended purposes. As discussed in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , five of our properties were closed in 2009 as part of our Restructuring Program.

## Item 3. Legal Proceedings.

Discussion of legal matters is incorporated by reference to Part II, Item 8, Note 11, Commitments and Contingencies, in the Notes to the Consolidated Financial Statements.

## Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of 2009.

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# Part II

## Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Crane Co. common stock is traded on the New York Stock Exchange ( NYSE ) under the symbol CR. The following are the high and low sale prices as reported on the NYSE Composite Tape and the quarterly dividends declared per share for each quarter of 2009 and 2008.

MARKET AND DIVIDEND INFORMATION CRANE CO. COMMON SHARES

| | New York Stock Exchange Composite Price per Share | | | | Dividends per Share | |
|---|---|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2008 | | |
| Quarter | High | Low | High | Low | 2009 | 2008 |
| First | $ 20.16 | $ 12.46 | $ 44.16 | $ 33.54 | $ 0.20 | $ 0.18 |
| Second | $ 25.63 | $ 15.98 | $ 46.30 | $ 37.58 | 0.20 | 0.18 |
| Third | $ 26.80 | $ 20.24 | $ 38.49 | $ 28.14 | 0.20 | 0.20 |
| Fourth | $ 32.40 | $ 24.42 | $ 29.63 | $ 10.87 | 0.20 | 0.20 |
| | | | | | $ 0.80 | $ 0.76 |

On December 31, 2009 there were approximately 3,322 holders of record of Crane Co. common stock.
We did not make any open-market share repurchases of our common stock during the year ended December 31, 2009. We routinely receive shares of our common stock as payment for stock option exercises and the withholding taxes due on stock option exercises, restricted stock vestings, and restricted share unit vestings from stock-based compensation program participants.

## Item 6. Selected Financial Data.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

| | For the year ended December 31, | | | | |
|---|---|---|---|---|---|
| (in thousands, except per share data) | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net sales(a) | $ 2,196,343 | $ 2,604,307 | $ 2,619,171 | $ 2,256,889 | $ 2,061,249 |
| Operating profit (loss)(b) | 208,269 | 197,489 | (107,656) | 247,936 | 213,622 |
| Interest expense | (27,139) | (25,799) | (27,404) | (23,015) | (22,416) |
| Income (loss) before taxes(a)(b)(c) | 184,926 | 183,647 | (118,788) | 239,504 | 196,956 |
| Provision (benefit) for income taxes(d) | 50,846 | 48,694 | (56,553) | 73,447 | 60,486 |
| Net income (loss) attributable to common shareholders(d) | 133,856 | 135,158 | (62,342) | 165,887 | 136,037 |
| Earnings (loss) per basic share(d) | 2.29 | 2.27 | (1.04) | 2.72 | 2.27 |
| Earnings (loss) per diluted share(d) | 2.28 | 2.24 | (1.04) | 2.67 | 2.25 |
| Cash dividends per common share | 0.80 | 0.76 | 0.66 | 0.55 | 0.45 |
| Total assets | 2,712,898 | 2,774,488 | 2,877,292 | 2,436,846 | 2,145,199 |
| Long-term debt | 398,557 | 398,479 | 398,301 | 398,122 | 298,961 |
| Accrued pension and postretirement benefits | 141,849 | 150,125 | 52,233 | 59,996 | 56,649 |
| Long-term deferred tax liability | 29,578 | 22,971 | 31,880 | 89,595 | 71,406 |
| Long-term asbestos liability | 730,013 | 839,496 | 942,776 | 459,567 | 526,830 |
| Long-term insurance receivable asbestos | 213,004 | 260,660 | 306,557 | 170,400 | 224,600 |

(a) Includes $18,880 from the Boeing and GE Aviation LLC settlement related to the Company's brake control systems in 2009.
(b) Includes 1) $16,360 from the above-mentioned settlement related to the Company's brake control systems in 2009, 2) a net charge of $7,250 related to a lawsuit settlement in connection with our fiberglass-reinforced plastic material in 2009, 3) restructuing charges of $5,243 and $40,703 in 2009 and 2008, respectively, 4) environmental provisions of $24,342 and $18,912 in 2008 and 2007, respectively, 5) the foundry restructuring gain, net, of $19,083 in 2007, 6) the governmental settlement of $7,600 in 2007, 7) an asbestos provisions of $390,150 in 2007 and 8) an environmental reimbursement of $4,900 in 2006.
(c) Includes the effect of items cited in note (a) and (b) and a gain on sale of a joint venture of $4,144 in 2007.
(d) Includes the tax effect of items cited in notes (a) (b) and (c) as well as a $5,238 tax benefit related to a divestiture in 2009 and a $10,400 tax provision in 2007 for the potential repatriation of $194,000 of foreign cash.

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# Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

We are a diversified manufacturer of highly engineered industrial products. Our business consists of five segments: Aerospace & Electronics, Engineered Materials, Merchandising Systems, Fluid Handling and Controls. Our primary markets are aerospace, defense electronics, recreational vehicle ( RV ), transportation, automated merchandising, chemical, pharmaceutical, oil gas, power, nuclear, building services and utilities.

Our strategy is to grow the earnings of niche businesses with leading market shares, acquire companies that fit strategically with existing businesses, aggressively pursue operational and strategic linkages among our businesses, build a performance culture focused on continuous improvement and a committed management team whose interests are directly aligned with those of the shareholders and maintain a focused, efficient corporate structure. In response to disruptions in the credit markets and a substantially weakening global economy, in the fourth quarter of 2008, we initiated broad-based restructuring actions in order to align our cost base to expected lower levels of demand. Our core sales declined by 17% from 2008, which compared to our expectation of 7% at the beginning of the year and, in response, we continually accelerated our productivity programs across all areas of the business to ensure our cost base was sized appropriately. By the end of 2009, we reduced targeted costs by $175 million compared to 2008, which exceeded our goal for the year. This full year level of savings equates to approximately 8% of our 2009 sales, which we view as a significant accomplishment and a reflection of our cost sensitive culture.

## Items Affecting Comparability of Reported Results

The comparability of our operating results for the years ended December 31, 2009, 2008 and 2007 is affected by the following significant items:

### GE Aviation Systems LLC and The Boeing Company Settlement

During the fourth quarter of 2009, we executed agreements with GE Aviation Systems LLC and The Boeing Company resolving our claims relating to the brake control monitoring system being developed by our Aerospace Group for the Boeing 787 (the 787 Settlement Claim ). As a result of the agreement, our Aerospace Group recognized an increase in sales of $18.9 million and an after-tax benefit of $0.18 per share in 2009.

### Fiberglass-Reinforced Plastics lawsuit

On April 17, 2009, we reached an agreement to settle a lawsuit brought by a customer alleging failure of the Company s fiberglass-reinforced plastic material in RV sidewalls manufactured by such customers. In mediation, we agreed to a settlement aggregating $17.75 million payable in several installments through July 1, 2009, all of which have been paid. Based upon both insurer commitments and liability estimates previously recorded in 2008, we recorded a pre-tax charge of $7.25 million in connection with this settlement in 2009.

### Restructuring and Related Costs

During the fourth quarter of 2008, we initiated broad-based restructuring actions to align our cost base to then current market conditions which included facility consolidations, headcount

reductions and other related costs, (the Restructuring Program ). At December 31, 2008, we recorded pre-tax restructuring and related charges in the business segments totaling $40.7 million. The charges include workforce reduction expenses and facility exit costs of $25.0 million and $15.7 million related to asset write-downs.

In 2009, we substantially completed our restructuring actions and recorded pre-tax restructuring and related charges in the business segments totaling $5.2 million. The charges include workforce reduction expenses and facility exit costs of $5.0 million and $0.2 million related to asset write-downs.

During the fourth quarter of 2007, our Fluid Handling segment commenced implementation of a restructuring program designed to further enhance operating margins through ceasing the manufacture of malleable iron and bronze fittings at foundry operating facilities in the UK and Canada, respectively, and exiting both facilities and transferring production to China. The program primarily included workforce reduction expenses and facility exit costs, all of which are expected to be cash costs. In December 2007, we recognized workforce reduction charges of $9 million and, also in December 2007, pursuant to this program, we sold our foundry facility in the UK, generating a pre-tax gain of $28 million. The Foundry Restructuring was completed in 2009.

### Environmental Charges

For environmental matters, the Company records a liability for estimated remediation costs when it is probable that the Company will be responsible for such costs and they can be reasonably estimated. Generally, third party specialists assist in the estimation of remediation costs. The environmental remediation liability at December 31, 2009 and 2008 is substantially all for the former manufacturing site in Goodyear, Arizona (the Goodyear Site ) discussed below.

The Goodyear Site was operated by UniDynamics/Phoenix, Inc. ( UPI ), which became an indirect subsidiary of the Company in 1985 when the Company acquired UPI s parent company, UniDynamics Corporation. UPI manufactured explosive and pyrotechnic compounds, including components for critical military programs, for the U.S. government at the Goodyear Site from 1962 to 1993, under contracts with the Department of Defense and other government agencies and certain of their prime contractors. No manufacturing operations have been conducted at the Goodyear Site since 1994. The Goodyear Site was placed on the National Priorities List in 1983, and is now part of the Phoenix-Goodyear Airport North Superfund Goodyear Site. In 1990, the EPA issued administrative orders requiring UPI to design and carry out certain remedial actions, which UPI has done. Groundwater extraction and treatment systems have been in operation at the Goodyear Site since 1994. A soil vapor extraction system was in operation from 1994 to 1998, was restarted in 2004, and is currently in operation. On July 26, 2006, the Company entered into a consent decree with the EPA with respect to the Goodyear Site providing for, among other things, a work plan for further investigation and remediation activities at the Goodyear Site. The Company recorded a liability in 2004 for estimated costs through 2014 after reaching substantial agreement on the scope of work with the EPA. At the end of September 2007, the liability totaled $15.4 million. During the fourth quarter of 2007, the Company and its technical advisors determined that changing groundwater flow rates and contaminant plume direction at the Goodyear Site required additional extraction systems as well as modifications and upgrades of the existing systems. In consultation with its technical advisors, the Company prepared a forecast of the expenditures required for these new and upgraded systems as well as the costs of operation over the forecast period through 2014. Taking these additional costs into consideration, the Company estimated its liability for the costs of such activities through 2014 to be $41.5 million which resulted in a charge of $18.9 million during the fourth quarter of 2007. During the fourth quarter of 2008, based on further consultation with our advisors and the EPA and in response to groundwater monitoring results that reflected a continuing migration in contaminant plume direction during the year, the Company revised its forecast of remedial activities to increase the level of extraction systems and the number of monitoring wells in and around the Goodyear Site, among other things. As of December 31, 2008, the revised liability estimate was $65.2 million which resulted in an additional charge of $24.3 million during the fourth quarter of 2008. As of December 31, 2009, the liability estimate was $53.8 million.

On July 31, 2006, the Company entered into a consent decree with the U.S. Department of Justice on behalf of the Department of Defense and the Department of Energy pursuant to which, among other things, the U.S. Government reimburses the Company for 21 percent of qualifying costs of investigation and remediation activities at the Goodyear Site. As of December 31, 2009 the Company has recorded a receivable of $11.3 million for the expected reimbursements from the U.S. Government in respect of the aggregate liability as at that date. In the first quarter of 2009, the Company issued a $35 million letter of credit to support requirements of the consent decree for the Goodyear Site.

### Asbestos Charge

With the assistance of outside experts, during the third quarter of 2007, we updated and extended our estimate of our asbestos liability, including the costs of settlement or indemnity payments and defense costs relating to currently pending claims and future claims projected to be filed against us through 2017. Our previous estimate was for asbestos claims filed through 2011. As a result of this updated estimate, we recorded an additional pre-tax provision of $390.2 million during the third quarter of 2007 (this amount includes a corresponding insurance receivable). Our decision to take this action was based on several factors at the time, including:

- the number of asbestos claims being filed against us has moderated substantially over the past several years, and in our opinion, the outlook for asbestos claims expected to be filed and resolved in the forecast period should be reasonably stable;
- the stable outlook for future claims is particularly true for mesothelioma claims, which although constituting only 11% of our asbestos claims account for approximately 90% of our aggregate settlement and defense costs over the past five years;
- federal legislation that would significantly change the nature of asbestos litigation failed to pass in 2006, and in our opinion, the prospects for such legislation at the federal level are remote;
- there have been significant actions taken by certain state legislatures and courts over the past several years that have reduced the number and types of claims that can proceed to trial, which has been a significant factor in stabilizing the asbestos claim activity; and
- we have entered into coverage-in-place agreements with a majority of our excess insurers, which enables us to project a more stable relationship between settlement and defense costs paid by us and reimbursements from our insurers.

Taking all of these factors into account, we believe that we can reasonably estimate the asbestos liability for pending claims and future claims to be filed through 2017. While it is probable that we will incur additional charges for asbestos liabilities and defense costs in excess of the amounts currently provided, we do not believe that any such amount can be reasonably estimated beyond 2017. Accordingly, no accrual has been recorded for any costs which may be incurred for claims made subsequent to 2017. The liability was $821 million and $930 million as of December 31, 2009 and 2008, respectively.

### Civil False Claims Settlement

During 2007, we recorded a $7.6 million charge related to a civil false claims proceeding by the U.S. Government, arising out of allegations that certain valves sold by our Crane Valves North America unit ( CVNA ) to private customers that ultimately were delivered to U.S. military agencies did not conform to contractual specifications relating to the place of manufacture and the origin of component parts.

### Divestitures

In December 2009, we sold General Technology Corporation ( GTC ) generating proceeds of $14.2 million and after-tax gain of $5.2 million. GTC, also known as Crane Electronic Manufacturing Services, was included in our Aerospace & Electronics segment, as part of the Electronics Group. GTC had $26 million in sales in 2009 and is located in Albuquerque, New Mexico.

In December 2007, together with our partner, Emerson Electric Co., we sold the Industrial Motion Control, LLC ( IMC ) joint venture, generating proceeds of $33 million and an after-tax gain of $5.8 million. Our investment in IMC was $29 million and we recorded income in 2007 and 2006 of $5.3 million and $5.6 million respectively.

### Repatriation of Foreign Earnings

During the fourth quarter of 2007, we concluded that our cash balances overseas were in excess of our projected future needs outside the United States. As a result, we established a $10.4 million deferred tax liability related to the estimated additional U.S. federal and state income taxes due upon the ultimate repatriation of $194 million of such cash balances.

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

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| (in millions except %) | For the year ended December 31, 2009 | 2008 | 2007 | 2009 vs 2008 Favorable / (Unfavorable) Change $ | % | 2008 vs 2007 Favorable / (Unfavorable) Change $ | % |
|---|---|---|---|---|---|---|---|
| Net Sales | | | | | | | |
| Aerospace & Electronics | $ 590 | $ 639 | $ 629 | $ (49) | (8) | $ 10 | 2 |
| Engineered Materials | 172 | 255 | 331 | (83) | (33) | (76) | (23) |
| Merchandising Systems | 293 | 402 | 388 | (109) | (27) | 14 | 3 |
| Fluid Handling | 1,050 | 1,162 | 1,136 | (112) | (10) | 26 | 2 |
| Controls | 92 | 147 | 135 | (55) | (38) | 12 | 9 |
| Total Net Sales | $ 2,196 | $ 2,604 | $ 2,619 | $ (408) | (16) | $ (15) | (1) |
| Sales Growth: | | | | | | | |
| Core business | | | | $ (435) | (17) | $ (52) | (2) |
| Acquisitions/dispositions | | | | 115 | 4 | 32 | 1 |
| Foreign Exchange | | | | (88) | (3) | 5 | |
| Total Sales Growth | | | | $ (408) | (16) | $ (15) | (1) |
| Operating Profit (Loss) | | | | | | | |
| Aerospace & Electronics | $ 96 | $ 54 | $ 86 | $ 42 | 77 | $ (32) | (37) |
| Engineered Materials | 20 | 4 | 58 | 16 | 363 | (54) | (93) |
| Merchandising Systems | 21 | 32 | 40 | (11) | (34) | (8) | (20) |
| Fluid Handling | 132 | 159 | 159 | (27) | (17) | | |
| Controls | (4) | 11 | 10 | (15) | (137) | 1 | 10 |
| Total Segment Operating Profit (Loss)* | $ 265 | $ 260 | $ 353 | $ 5 | 2 | $ (93) | (26) |
| Corporate Expense | (56) | (39) | (52) | (17) | (44) | 13 | 25 |
| Corporate Asbestos charge | | | (390) | | | 390 | |
| Corporate Environmental charge | | (24) | (19) | 24 | | (5) | |
| Total Operating Profit (Loss) | $ 208 | $ 197 | $ (108) | $ 11 | 5 | $ 305 | 282 |
| Operating Margin % | | | | | | | |
| Aerospace & Electronics | 16.3% | 8.5% | 13.7% | | | | |
| Engineered Materials | 11.4% | 1.7% | 17.6% | | | | |
| Merchandising Systems | 7.2% | 8.0% | 10.2% | | | | |
| Fluid Handling | 12.6% | 13.7% | 14.0% | | | | |
| Controls | (4.8%) | 7.6% | 7.3% | | | | |
| Total Segment Operating Profit Margin %* | 12.0% | 10.0% | 13.5% | | | | |
| Total Operating Margin % | 9.5% | 7.6% | (4.1%) | | | | |

* The disclosure of total segment operating profit and total segment operating profit margin provides supplemental information to assist management and investors in analyzing our profitability but is considered a non-GAAP financial measure when presented in any context other than the required reconciliation to operating profit in accordance with ASC 280 Disclosures about Segments of an Enterprise and Related Information. Management believes that the disclosure of total segment operating profit and total segment operating profit margin, non-GAAP financial measures, present additional useful comparisons between current results and results in prior operating periods, providing investors with a clearer view of the underlying trends of the business. Management also uses these non-GAAP financial measures in making financial, operating, planning and compensation decisions and in evaluating the Company's performance. Non-GAAP financial measures, which may be inconsistent with similarly captioned measures presented by other companies, should be viewed in addition to, and not as a substitute for, the Company s reported results prepared in accordance with GAAP.

Restructuring and related charges of $5 million, $41 million and a restructuring gain of $19 million in 2009, 2008 and 2007, respectively, were included in segment operating profit as follows:

| (in millions) | For the year ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Restructuring | | | |
| Aerospace & Electronics | $ 3 | $ 2 | $ |

| | | | |
|---|---|---|---|
| Engineered Materials | | 19 | |
| Merchandising Systems | (3) | 13 | |
| Fluid Handling | 5 | 6 | (19) |
| Controls | | 1 | |
| Total Restructuring Charge (Gain) | $ 5 | $ 41 | $ (19) |

## 2009 compared with 2008

Sales in 2009 decreased $408 million, or 16%, to $2.196 billion compared with $2.604 billion in 2008. The sales decrease was driven by a core business decline of $435 million (17%) and unfavorable foreign exchange of $88 million (3%), partially offset by a net increase in revenue from acquisitions and dispositions of $115 million (4%). The Aerospace & Electronics segment reported a sales decrease of $49 million, or 8%. Our Aerospace Group had an 11% sales decrease in 2009 compared to the prior year, reflecting lower commercial OEM activity, particularly for regional and business jets, as well as lower commercial aftermarket sales, partially offset by $18.9 million of incremental sales in 2009 related to the 787 Settlement Claim. The Electronics Group experienced a 2% sales decline year-over-year driven by lower volumes of our Custom Power Solutions products. In our Engineered Materials segment, we continued to experience significantly lower volumes to RV manufacturers and, to a lesser extent, transportation and building products customers, primarily due to the weak economy and, in the case of RVs, continued restrictions on consumer credit. Merchandising Systems segment revenue decreased 27% in 2009 due to difficult world-wide market conditions in both our Vending and Payment Solutions businesses. Our Fluid Handling segment s sales decreased $112 million, or 10%, which was attributable to broad-based volume declines across most businesses driven by poor market conditions and unfavorable foreign exchange.

Total segment operating profit increased $5 million to $265 million in 2009 compared to $260 million in 2008. Total segment operating profit in 2009 included approximately $16.4 million of profit attributable to the 787 Settlement Claim and $5.2 million of restructuring charges. Total segment operating profit in 2008 included $41 million of restructuring charges. As a percent of sales, total segment operating margins increased to 12.0% in 2009 compared to 10.0% in 2008.

The increase in segment operating profit over the prior year was driven primarily by increases in operating profit in our Aerospace & Electronics and Engineered Materials segments, substantially offset by decreases in our Merchandising Systems, Fluid Handling and Controls segments. Our Aerospace & Electronics segment operating profit was $42 million higher, or 77%, in 2009 compared to the prior year, and our Engineered Materials segment operating profit was $16 million higher, or 363%, in 2009 compared to the prior year. The significant improvement in the Aerospace & Electronics segment reflected a $44 million decrease in engineering expenses related to a decline in activities associated with the Boeing 787 and Airbus A400M programs, the favorable impact of the 787 Settlement Claim, strong program execution in the Electronics Group, and the impact of cost reduction initiatives. The increase in Engineered Materials primarily reflected the $19 million decline in restructuring charges and savings associated with cost reduction initiatives, partially offset by the impact of the substantial volume declines mentioned above. The decline in operating profit in our Merchandising Systems segment primarily reflected the substantial volume declines associated with the aforementioned unfavorable market conditions, partially offset by a $16 million decline in restructuring charges and the impact of cost reduction initiatives. The decline in our Fluid Handling segment was attributable to the impact lower sales volumes and unfavorable foreign exchange, partially offset by the impact of cost reduction initiatives.

Total operating profit was $208 million in 2009 compared to $197 million in 2008. In addition to the aforementioned segment results, 2009 operating results included a $7.3 million charge related to the lawsuit settlement in connection with our fiberglass-reinforced plastic business and 2008 operating results included an environmental provision of $24.3 million related to an increase in our expected liability at our Goodyear, Arizona Superfund Site.

Net income attributable to common shareholders in 2009 was $133.9 million, or $2.28 per share, as compared with net income attributable to common shareholders of $135.2 million, or $2.24 per share in 2008. In addition to the items mentioned above, net income in 2009 included the after-tax gain associated with the divestiture of GTC ($5.2 million, or $.09 per share).

## 2008 compared with 2007

Sales in 2008 decreased $15 million, or 1%, to $2.604 billion compared with $2.619 billion in 2007. The sales decrease was primarily due to a core business decline of $52 million (2%), offset by a net increase in revenue from acquisitions and dispositions of $32 million (1%) and favorable foreign exchange of $5 million. The Aerospace & Electronics segment reported a sales increase of $10 million, or 2%. Our Aerospace Group had a 7% sales increase in 2008 compared to the prior year, driven by continued strong production levels at aircraft manufacturers as they continued to deliver on record bookings. The Electronics Group experienced a 6% sales decline year-over-year driven largely by a decrease in deliveries to our Custom Power customers. In our Engineered Materials segment, we continued to experience significantly lower volumes to RV manufacturers and, to a lesser extent, transportation and building products customers, primarily due to the weak economy and, in the case of

RVs, lack of credit available to consumers. Our Merchandising Systems segment showed a 3% revenue increase in 2008 primarily due to continued strong demand for our Payment Solutions products as well as, to a lesser extent, the successful introduction of the BevMax III glass front vender in the first half of 2008. Our Fluid Handling segment s sales increased $26 million, or 2%, which was substantially attributable to $24 million of core growth driven by increases in product prices.

Total segment operating profit declined $93 million to $260 million in 2008 compared to $353 million in 2007. Total segment operating profit in 2008 included $41 million of restructuring charges in connection with the Restructuring Program; Total segment operating profit in 2007 included a net gain of $19 million in connection with the Foundry Restructuring. As a percent of sales, total segment operating margins decreased to 10.0% in 2008 compared to 13.5% in 2007.

The decrease in segment operating profit over the prior year was driven primarily by significant declines in operating profit in our Engineered Materials and Aerospace & Electronics segments. Our Engineered Materials segment operating profit was $54 million lower, or 93%, in 2008 compared to the prior year, and our Aerospace & Electronics segment operating profit was $32 million lower, or 37%, in 2008 compared to the prior year. The decline in Engineered Materials primarily reflected the sharp decline in sales to our traditional RV customers, coupled with $19 million in restructuring costs associated with the Restructuring Program. The decline in operating profit in Aerospace & Electronics reflected substantially higher engineering expense in the Aerospace Group

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related to our investments in the Boeing 787 and Airbus A400M programs. Our Fluid Handling segment operating profit was $159 million in 2008, which is flat compared to 2007; operating profit in 2008 included $6 million in charges in connection with the Restructuring Program; operating profit in 2007 included a net gain of $19 million related to the Foundry Restructuring. Merchandising Systems operating profit was $8 million lower, or 20%, in 2008 compared to the prior year; 2008 results included $13 million in charges related to the Restructuring Program.

Total operating profit was $197 million in 2008 compared to an operating loss of $108 million in 2007. In addition to the aforementioned segment results, 2008 operating results included an environmental provision of $24.3 million ($15.8 million, after-tax) related to an increase in our expected liability at our Goodyear, Arizona Superfund Site. The total 2007 operating loss included the following:

- a provision of $390.2 million ($253.6 million, after-tax) to update and extend our estimate of our asbestos liability;
- an environmental provision of $18.9 million ($12.3 million, after-tax) related to our expected liability at our Goodyear, Arizona Superfund Site; and
- a provision of $7.6 million ($5.4 million, after-tax) relating to a civil false claims proceeding by the U.S. Government.

Net income attributable to common shareholders in 2008 was $135.2 million, or $2.24 per share, as compared with a net loss attributable to common shareholders of $62.3 million, or $1.04 per share in 2007. Net income in 2008 included the environmental provision ($15.8 million, or $0.26 per share). The 2007 net loss included:

- the asbestos charge ($253.6 million, or $4.22 per share);
- the environmental provision ($12.3 million, or $0.20 per share);
- the civil false claims settlement ($5.4 million, or $0.09 per share); and
- an additional tax provision for undistributed foreign earnings ($10.4 million, or $0.17 per share).

These amounts were partially offset by the net gain resulting from the Foundry Restructuring ($18.4 million, or $0.31 per share) and the gain on the sale of the IMC joint venture ($5.8 million, or $0.10 per share).

## AEROSPACE & ELECTRONICS

| (dollars in millions) | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net Sales* | $ 590 | $ 639 | $ 629 |
| Operating Profit* | 96 | 54 | 86 |
| Restructuring Charge** | 3 | 2 | |
| Assets | 436 | 472 | 467 |
| Operating Margin | 16.3% | 8.5% | 13.7% |

* Net Sales and Operating Profit for 2009 include $18.9 million and $16.4 million, respectively, related to the 787 Settlement Claim.
** The restructuring charge is included in operating profit and operating margin.

2009 compared with 2008. Sales of our Aerospace & Electronics segment decreased $49 million, or 8%, in 2009 to $590 million. Sales in 2009 included $18.9 million related to the 787 Settlement Claim. The Aerospace & Electronics segment s operating profit increased $42 million, or 77%, in 2009. The increase in operating profit was driven primarily by substantially lower engineering expense in the Aerospace Group, which was $67 million in 2009 compared to $111 million in 2008. In addition, operating profit in 2009 included approximately $16.4 million related to the 787 Settlement Claim. The operating margin for the segment was 16.3% in 2009 compared to 8.5% in 2008.

Aerospace Group sales decreased 11% from $405 million in 2008 to $360 million in 2009. Backlog at December 31, 2009 decreased 15% to $189 million from December 31, 2008. The commercial market accounted for 81% of Aerospace Group sales in 2009, while sales to the military market were 19% of total sales. Sales in 2009 by the Group s four solution sets were as follows: Landing Systems, 31%; Sensing and Utility Systems, 31%; Fluid Management, 27%; and Cabin, 11%.

Our Aerospace Group s sales decreased in 2009 due to lower OEM sales which were down 21% to $185 million from $233 million in 2008 and, to a lesser extent, commercial aftermarket volumes which decreased 6% to $145 million in 2009 from $153 million in 2008; these declines were partially offset by higher sales of military product sales (OEM and spares) and modernization and upgrade product sales. The lower commercial sales, in particular to our business and regional jet customer base, reflect the impact of a generally weaker global economy which continued to negatively impact the airline industry during 2009, as companies tightened corporate travel policies, resulting in a decline in business travel. Fuel prices also continued to impact the industry. These factors continue to adversely impact the commercial aerospace industry as certain carriers have reduced service and capacity, including retiring their older and less fuel efficient aircraft. Sales to OEMs were 60% and 62% of total sales in 2009 and 2008, respectively.

Aerospace Group 2009 operating profit, however, increased 99% over the prior year, as the $44 million decrease in engineering expense, coupled with the $16.4 million favorable impact of the 787 Settlement Claim, more than offset the unfavorable impact of the aforementioned lower sales levels. The substantial decline in engineering expense was primarily related to the completion of key activities related to the Boeing 787 Dreamliner and Airbus A400M programs. Aerospace engineering expense was about 19% of sales in 2009 versus 27% in the prior year. Operating profit was also favorably impacted by savings associated with broad-based cost reduction initiatives.

Electronics Group sales decreased 2% from $235 million in 2008 to $230 million in 2009. The Electronics Group was unfavorably impacted by lower volumes of our Customer Power Solutions products and, to a lesser extent, lower volumes of our Microelectronics Solutions products. The decline in Custom Power Solutions was driven largely by the downturn in the commercial aviation market; the decline in Microelectronics Solutions was primarily related to lower volumes of certain custom medical products. Operating profit increased 52% over the prior year due to strong program execution, lower engineering spending and broad-based cost savings associated with cost reduction programs. At December 31, 2009, our Electronics Group backlog was down 17%

from prior year levels, 13% of which is attributed to the divesture of GTC.

Electronics Group sales by market in 2009 were as follows: military/defense, 65%; commercial aerospace, 27%; medical, 4%; and space, 4%. Sales in 2009 by the Group s solution sets were as follows: Power, 65%; Microwave Systems, 18%; Electronic Manufacturing Services, 11% and Microelectronics, 6%.

2008 compared with 2007. In 2008, Aircraft Electrical Power was repositioned from the Aerospace Group to the Electronics Group as part of Power Solutions and, as a result, the discussion which follows reflects the related movement of $42 million in 2007 sales from the Aerospace Group to the Electronics Group. This change had no impact on the reported segment results as the repositioning was performed wholly within the segment. The discussion and analysis on the 2007 comparison to 2006 remains unchanged.

Sales of our Aerospace & Electronics segment increased $10 million, or 2%, in 2008 to $639 million. The Aerospace & Electronics segment s operating profit decreased $32 million, or 37%, in 2008. The decline in operating profit was driven primarily by substantially higher engineering expense in the Aerospace Group, which was $111 million in 2008 compared to $70 million in 2007. The increase in engineering expense was primarily related to our investments in the Boeing 787 and Airbus A400M programs. In addition, operating profit in 2008 included restructuring charges of $2 million. The operating margin for the segment was 8.5% in 2008 compared to 13.7% in 2007.

Aerospace Group sales increased 7% from $379 million in 2007 to $405 million in 2008. Backlog at December 31, 2008 increased 2% to $223 million from December 31, 2007. The increase in sales was driven by continued strong production levels at aircraft manufacturers as they continued to deliver on record bookings. The commercial market accounted for 84% of Aerospace Group sales in 2008, while sales to the military market were 16% of total sales. Sales in 2008 by the Group s four solution sets were as follows: Landing Systems, 29%; Sensing and Utility Systems, 32%; Fluid Management, 25%; and Cabin, 14%.

Our Aerospace Group s sales increased in 2008 due to higher OEM sales which were up 8% to $251 million from $232 million in 2007 and, to a lesser extent, aftermarket volumes which increased 5% to $153 million in 2008 from $147 million in 2007. Higher sales were fueled by continued growth in the aerospace industry. Sales to OEMs were 62% of the total in 2008 and 2007. Successful modernization and upgrade programs resulted in favorable aftermarket performance. Commercial OEM build rates remained strong throughout 2008 and approximately at the same level as 2007.

Our Aerospace Group 2008 operating profit decreased 48% over the prior year, driven primarily by the $41 million increase in engineering expense, or 59%, in 2008 compared to the prior year. The significant levels of engineering spending is primarily related to the Boeing 787 and Airbus A400M programs, which together accounted for 64% of total engineering expense for the Aerospace Group. Our Aerospace engineering expense was about 27% of sales in 2008, and we anticipate a decline in the second half of 2009 following commencement of test flights for the Boeing 787 aircraft.

Electronics Group sales decreased 6% from $250 million in 2007 to $235 million in 2008. The Electronics Group was unfavorably

impacted by lower volumes of our Customer Power Solutions products and, to a lesser extent, lower volumes of our Microwave Systems Solutions products. The decline in Custom Power Solutions was due to certain larger programs not being extended as well as generally lower sales levels on multiple programs. The decline in Microwave Systems Solutions was primarily related to lower volumes of certain custom microwave products as well as lower component sales. Operating profit decreased 19% over the prior year due to deleverage associated with the aforementioned decline in volume in the Customer Power and Microwave Systems Solutions products and higher program costs on certain long-term contracts. At December 31, 2008, Electronics Group backlog was up 12% from prior year levels.

Electronics Group sales by market in 2008 were as follows: military/defense, 62%; commercial aerospace, 29%; medical, 6%; and space, 3%. Sales in 2008 by the Group s solution sets were as follows: Power, 68%; Microwave Systems, 18%; Microelectronics, 8%; and Electronic Manufacturing Services, 6%.

# ENGINEERED MATERIALS

| (dollars in millions) | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net sales | $ 172 | $ 255 | $ 331 |
| Operating Profit | 20 | 4 | 58 |
| Restructuring Charge* | | 19 | |
| Assets | 262 | 271 | 305 |
| Operating Margin | 11.4% | 1.7% | 17.6% |

* The restructuring charge is included in operating profit and operating margin.

2009 compared with 2008. Engineered Materials sales decreased by $83 million from $255 million in 2008 to $172 million in 2009. Operating profit increased by $16 million from $4 million in 2008 to $20 million in 2009. Operating profit in 2008 included restructuring charges of $19 million. Operating margins were 11.4% in 2009 compared with 1.7% in 2008.

Sales declined $83 million, or 33%, reflecting substantially lower volumes to our traditional RV, transportation and building products customers when compared to the prior year. We attribute these declines to the weak economy and, in the case of RVs, continued restrictions on consumer credit availability. We experienced a 40% decline in sales to RV manufacturers (consistent with RV wholesale shipment declines), although sales strengthened in the second half of the year. In addition, we experienced a 34% decline in our sales to transportation-related customers, generally in line with the decline in the truck and trailer segments we serve, and a decline in building products sales of 27%, generally in line with the decline in the commercial building markets we serve. International sales (Europe, China and Latin America) were also down 29% in 2009 compared to 2008, primarily resulting from the general global economic slowdown.

The 2009 operating profit increase was primarily attributable to the absence of the $19 million restructuring charge we incurred in 2008, substantial savings associated with cost reduction initiatives, productivity improvements, lower raw material costs and lower warranty costs, offset by the deleverage associated with the substantially lower volumes.

2008 compared with 2007. Engineered Materials sales decreased by $76 million from $331 million in 2007 to $255 million

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in 2008. Operating profit decreased by $54 million from $58 million in 2007 to $4 million in 2008. Operating profit in 2008 included restructuring charges of $19 million. Operating margins were 1.7% in 2008 compared with 17.6% in 2007.

Sales declined $76 million, or 23%, reflecting substantially lower volumes when compared to the prior year. Core business sales were down $94 million, or 28%, related to lower volumes to RV manufacturers, transportation and building products customers. We attribute these declines to the weak economy and, in the case of RVs, lack of credit available to consumers. We experienced a 48% decline in sales to our RV customers, generally in line with the continued softness in the RV industry. In addition, we experienced a 29% decline in our sales to transportation-related customers, slightly better than reduced trailer build rates and a 9% decline to our building products customers. International sales (Europe, China and Latin America) were also down 13% in 2008 compared to 2007, primarily resulting from the general economic slowdown. These core business declines compared to the prior year were partially offset by an increase of $19 million, or 6%, related to the September 2007 acquisition of the composite panel business of Owens Corning.

The 2008 operating profit decrease was primarily attributable to deleverage associated with the substantially lower sales compared to the prior year. As a result of the significantly lower sales levels, we reduced employment levels in 2008 by 34% and, in addition, during the fourth quarter of 2008, we approved a plan to undertake further cost reduction initiatives substantially focused on facility consolidation and, to a lesser extent, additional headcount reductions. As discussed above, our Engineered Materials segment operating profit includes $19 million of restructuring charges in connection with these initiatives.

# MERCHANDISING SYSTEMS

| (dollars in millions) | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net Sales | $ 293 | $ 402 | $ 388 |
| Operating Profit | 21 | 32 | 40 |
| Restructuring (Gain) Charge* | (3) | 13 | |
| Assets | 297 | 302 | 349 |
| Operating Margin | 7.2% | 8.0% | 10.2% |

* The restructuring (gain) charge is included in operating profit and operating margin.

2009 compared with 2008. Merchandising Systems sales decreased by $109 million from $402 million in 2008 to $293 million in 2009. Operating profit decreased by $11 million from $32 million in 2008 to $21 million in 2009. Operating profit included restructuring (gains) charges of ($3) million, net, in 2009 and $13 million in 2008 (a decline of $16 million compared to 2008). Operating margins were 7.2% in 2009 compared with 8.0% in 2008.

Sales were down $109 million compared to the prior year, or 27%, primarily reflecting substantially lower volumes in both Vending Solutions and Payment Solutions and, to a lesser extent, unfavorable foreign exchange. The lower volumes reflect continued difficult global economic conditions. While sales declined approximately 37% in the first half of the year, we progressively improved, reporting a fourth quarter decline of approximately 8% when compared to the fourth quarter of last year (the downturn in our

end markets began largely in the second half of 2008). Larger industry declines across all businesses were partially mitigated by revenues generated from the successful introduction of key new products, including the BevMax4 cold beverage vendor, the Currenza Recycler and Currenza Clip payment solutions devices, and the Merchant snack vendor as well as share gains at several key customers.

Operating profit of $21 million decreased $11 million in 2009 versus 2008. The operating profit decrease was primarily attributable to deleverage associated with the substantially lower sales and, to a lesser extent, the impact of unfavorable foreign exchange, partially offset by a $16 million decline in restructuring expenses and significant cost savings that included the successful consolidation of four manufacturing locations into two during 2009, and continued headcount reductions (we reduced employment levels by 12% in 2009; and by 24% compared to year-end 2007). Operating profit in 2009 also included approximately $3 million of favorable legal settlements associated with protecting certain patents on key technologies.

2008 compared with 2007. Merchandising Systems sales increased by $14 million from $388 million in 2007 to $402 million in 2008. Operating profit decreased by $8 million from $40 million in 2007 to $32 million in 2008. Operating profit in 2008 included restructuring charges of $13 million. Operating margins were 8.0% in 2008 compared with 10.2% in 2007.

Sales were up $14 million compared to the prior year, or 3%, primarily due to growth in the Payment Solutions business, offset slightly by a sales decrease in the Vending Solutions business. The Payment Solutions Group revenue increase was attributable to strong global demand for coin and bill validation and our coin dispensing products in the first nine months of 2008; during the fourth quarter of 2008, however, unfavorable market conditions resulted in lower Payment Solutions product sales when compared to the same prior year period. Vending Solutions experienced strong sales in the first half of 2008, when compared to the same prior year period, led by the successful introduction of the BevMax III glass front vender; similar to Payment Solutions, albeit earlier and more pronounced, our Vending Solutions business experienced substantially lower volumes beginning in the third quarter of 2008, as customers curtailed orders in response to the difficult economy and generally unfavorable market conditions. As a result of the slowing demand in the second half, we reduced employment levels by 14% in 2008.

Operating profit of $32 million decreased $8 million in 2008 versus 2007. In response to the generally unfavorable market conditions, during the fourth quarter of 2008, we approved a plan to undertake further headcount reductions as well as certain facility consolidation activities. As a result, as discussed above, Merchandising Systems operating profit included $13 million of restructuring charges in connection with these initiatives. To a lesser extent, deleverage associated with lower volumes in our Vending Solutions business adversely impacted our year-over-year results.

# FLUID HANDLING

| (dollars in millions) | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net Sales | $ 1,050 | $ 1,162 | $ 1,136 |
| Operating Profit | 132 | 159 | 159 |
| Restructuring Charge (Gain)* | 5 | 6 | (19) |
| Assets | 832 | 889 | 869 |
| Operating Margin | 12.6% | 13.7% | 14.0% |

* The restructuring charge (gain) is included in operating profit and operating margin.

2009 compared with 2008. Fluid Handling sales decreased by $112 million from $1.162 billion in 2008 to $1.050 billion in 2009. Operating profit decreased by $27 million from $159 million in 2008 to $132 million 2009. The 2009 operating profit included restructuring charges of $5 million; operating profit in 2008 included restructuring charges of $6 million. Operating margins were 12.6% in 2009 compared with 13.7% in 2008.

Sales decreased $112 million, or 10%, including a core sales decline of $149 million, or 13%, and unfavorable foreign currency translation of $71 million, or 6%, partially offset by a net increase in sales from two acquired businesses of $108 million, or 9%. Backlog was $250 million at December 31, 2009, down 17% from $303 million at December 31, 2008, but stable when compared to September 30, 2009 and June 30, 2009 when backlog was $252 million and $256 million, respectively.

Our Crane Valve Group ( Valve Group ) includes the following businesses: Crane ChemPharma Flow Solutions, Crane Energy Flow Solutions and Building Services & Utilities. Valve Group revenues decreased 5.9% to $822 million from $873 million in 2008 driven by lower volumes (14.1%) and unfavorable foreign exchange (6.8%), partly offset by revenues contributed from the Krombach and Delta Fluid Products acquisitions (12.5%) and higher pricing (2.5%). Crane Energy Flow Solutions revenues increased compared to the prior year primarily due to the full year impact of the December 2008 Krombach acquisition, partially offset by volume declines associated with softness in our North American industrial markets and compounded by general weakness in our global refining and power markets. The Crane ChemPharma Flow Solutions business experienced significant volume declines due to reduced capital investment in the chemical industry, in particular in mature markets such as North America, Europe and Japan. Our Building Services & Utilities revenues also declined and was driven largely by unfavorable foreign exchange and core volume declines, primarily in the building services market, partially offset by the benefit of the full year impact of the September 2008 acquisition of Delta Fluid Products.

Crane Pumps & Systems revenue decreased $15 million, or 18%, to $71 million from $86 million in 2008 reflecting continued softness in the housing, municipal and Industrial and HVAC markets; notwithstanding market challenges, modest share gains were noted across the business.

Crane Supply revenue decreased $45 million to $157 million, or 22%, from $203 million in 2008 due primarily to volume declines and, to a lesser extent, the impact of unfavorable foreign exchange. The substantially lower volumes reflect soft market activity in both the contractor and maintenance, repair and overhaul ( MRO ) businesses, reflecting softness in end-user markets requiring fit -

tings, piping and plumbing supplies. To a lesser extent, revenues were lower due to unfavorable foreign exchange.

Operating profit was down $27 million, or 17% compared to 2008. The operating profit decline was primarily driven by deleverage associated with aforementioned lower sales volumes and, to a lesser extent, the impact of unfavorable foreign exchange, partially offset by disciplined pricing, savings associated with broad-based cost reduction programs and the full year impact of the late 2008 acquisitions of Krombach and Delta Fluid Products.

2008 compared with 2007. Fluid Handling sales increased by $26 million from $1.136 billion in 2007 to $1.162 billion in 2008. Operating profit was $159 million in 2008 and 2007. The 2007 operating profit included the net gain of $19 million related to the Foundry Restructuring; operating profit in 2008 included restructuring charges of $6 million. Operating margin was 13.7% in 2008 compared with 14.0% in 2007.

Sales increased $26 million, or 2% compared to 2007. The sales increase was primarily due to $24 million, or 2%, of core growth driven by increases in product prices, which more than offset year-over-year volume declines. Backlog was $303 million at December 31, 2008, up 25% from $243 million at December 31, 2007.

Operating profit was $159 million in 2008 and 2007. The 2007 operating profit included the net gain of $19 million related to the Foundry Restructuring, as discussed above. Operating profit was strong in the first half of 2008 compared to the same 2007 period reflecting improvements across all major business units in the segment, due to strong global demand in the chemical, pharmaceutical and energy industries, coupled with throughput efficiencies, pricing discipline and to lesser extent, favorable foreign exchange. Operating profit was adversely impacted during the second half of 2008 by slowing orders from short-cycle North American businesses, delays of several large valve projects into 2009, higher operating costs, inefficiencies associated with Hurricane Ike and unfavorable foreign exchange. In addition, during the fourth quarter of 2008, we approved a plan to reduce headcount across several Fluid Handling businesses in response to potential continued weakness in global demand for industrial products which would, in turn, put further pressure on our operating margins. In the fourth quarter 2008, as discussed above our Fluid Handling segment operating profit includes $6 million of restructuring charges in connection with these initiatives.

Our Crane Valve Group ( Valve Group ) includes the following businesses: Crane ChemPharma Flow Solutions, Crane Energy Flow Solutions, Building Services & Utilities and Crane Valve Services. Valve Group revenues increased 3.8% to $873 million from $841 million in 2007 driven by higher pricing (4.2%) and an increase in revenues due to acquisitions, net of divestitures (0.9%), partly offset by lower volumes (1.0%) and unfavorable foreign exchange (0.3%). The Valve Group revenue growth was due primarily to solid pricing discipline across the businesses, partially offset by volume declines which began during the second quarter of 2008. Crane Energy Flow Solutions experienced substantial volume declines in the North America bio-fuel market, which was more than offset by price increases and stronger sales to the Middle East and China markets. Valve Services experienced strong core growth when compared to 2007, driven largely by increases in services for nuclear power plants and, to a lesser extent, increases in after -

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market valves and parts. The Crane ChemPharma Flow Solutions business experienced generally flat volumes, with growth primarily through strong pricing discipline when compared to 2007. Building Services & Utilities benefited from strong growth across most targeted markets (building services, water and gas) as well as from the acquisition of Delta Fluid Products in September 2008.

Crane Pumps & Systems revenue decreased $10 million, or 10%, to $86 million from $96 million in 2007 reflecting an $8 million decline in sales resulting from a divestiture, coupled with the impact of softness in the housing and municipal markets. These unfavorable impacts more than offset stronger military sales and strong pricing discipline when compared to the prior year.

Crane Supply revenue increased $4 million to $203 million, or 2%, from $199 million in 2007 due primarily to strong pricing discipline, increased contractor activity during the first half of 2008 and, to a lesser extent, favorable foreign exchange; notably, volumes decreased substantially during the fourth quarter when compared to the same period last year, reflecting softness in end-user markets requiring fittings, piping and plumbing supplies.

# CONTROLS

| (dollars in millions) | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net Sales | $ 92 | $ 147 | $ 135 |
| Operating Profit (Loss) | (4) | 11 | 10 |
| Restructuring Charge* | | 1 | |
| Assets | 70 | 83 | 84 |
| Operating Margin | (4.8%) | 7.6% | 7.3% |

* The restructuring charge is included in operating profit and operating margin.

2009 compared with 2008. Our Controls segment sales of $92 million decreased $55 million, or 38%, in 2009 as compared with 2008. The lower revenues reflect substantial volume declines to customers in the oil and gas, and transportation end markets. Segment operating loss of $4 million in 2009, decreased $15 million compared to 2008, and was driven by the aforementioned volume declines, partially offset by savings associated with cost reduction initiatives

2008 compared with 2007. Our Controls segment sales of $147 million increased $12 million, or 9%, in 2008 as compared with 2007. The increase was driven by sales contributed by the August 2007 acquisition of the Mobile Rugged Business of Kontron America, Inc. ( MRB ) and, to a lesser extent, price increases, both offset by volume declines related primarily to softness in the oil and gas and transportation markets. Segment operating profit of $11 million in 2008, increased 10% compared to 2007, primarily due to full year profit contribution from the MRB acquisition and the absence of related integration costs incurred in 2007, as well as targeted pricing actions and production efficiencies. These factors more than offset the volume decreases associated with the aforementioned market softness. Operating profit was also impacted by a $1 million charge in the fourth quarter related to the 2008 Restructuring Program.

# CORPORATE

| (dollars in millions) | 2009 | 2008 | 2007 |
|---|---|---|---|
| Corporate expense | $ (56) | $ (39) | $ (52) |
| Corporate expense Asbestos | | | (390) |
| Corporate expense Environmental | | (24) | (19) |

| | | | |
|---|---|---|---|
| Total Corporate | (56) | (63) | (461) |
| Interest income | 3 | 10 | 6 |
| Interest expense | (27) | (26) | (27) |
| Miscellaneous | 1 | 2 | 10 |
| Effective tax rate | 27.5% | 26.5% | 47.6% |

2009 compared with 2008. Total Corporate expense decreased $7 million in 2009 due to 1) the absence of an environmental provision of $24.3 million related to our expected liability at our Goodyear, Arizona Superfund Site recorded in 2008, 2) the absence of $4.4 million of recoveries in 2008, included in corporate expense, in connection with environmental remediation activities, offset by 3) $7.3 million related to the settlement of a lawsuit brought against us by a customer alleging failure of our fiberglass-reinforced plastic material and 4) higher corporate pension expense, driven primarily by lower pension asset returns in 2008.

Interest income Despite higher cash balances, interest income decreased from $10 million to $3 million due to lower interest rates.

Our effective tax rate is affected by recurring items such as tax rates in foreign jurisdictions and the relative amount of income we earn in different jurisdictions. It is also affected by discrete items that may occur in any given year, but are not consistent from year to year. The following items increased/(decreased) our effective tax rate when compared to the statutory U.S. federal income tax rate of 35%:

| (dollars in millions) | 2009 | 2008 |
|---|---|---|
| Statutory U.S. federal tax at 35% | $ 65 | $ 64 |
| Increase (reduction) from: | | |
| Rate differences between non-U.S. and U.S. jurisdictions | (9) | (13) |
| State and local taxes, net of federal benefit | 5 | 3 |
| Valuation allowance on state deferred tax assets | (3) | (2) |
| U.S. domestic manufacturing deduction | (1) | (1) |
| Dividends from non-U.S. subsidiaries, net of U.S. foreign tax credits | 8 | 4 |
| Deferred taxes on unremitted earnings of certain non-U.S. subsidiaries | (3) | |
| U.S. research and development tax credit | (4) | (7) |
| Tax benefit from the sale of GTC | (5) | |
| Sundry other items in the aggregate | (2) | 1 |
| Provision (benefit) for income taxes | $ 51 | $ 49 |
| Effective tax rate | 27.5% | 26.5% |

2008 compared with 2007. Total Corporate expense decreased $398 million in 2008 due to 1) the absence of the provision of $390.2 million to update and extend the estimate of our asbestos liability in 2007, 2) an environmental provision of $24.3 million

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and $18.9 million related to our expected liability at our Goodyear, Arizona Superfund Site recorded for the year ended December 31, 2008 and 2007, respectively, 3) the absence of a $7.6 million provision, included in corporate expense, relating to the civil false claims proceeding by the U.S. Government in 2007 and 4) $4.4 million of recoveries in 2008, included in corporate expense, in connection with environmental remediation activities.

Interest income in 2008 was $4 million higher than 2007 primarily reflecting higher average cash balances.

Miscellaneous income was $1.7 million in 2008 compared to $10.0 million in 2007. The 2007 amount included a $4.1 million gain from the December 2007 sale of the IMC joint venture, as well as $5.3 million of income earned in 2007 from the IMC joint venture, prior to divestiture.

The effective tax rate of 26.5% for 2008 reflected a tax provision on pre-tax income compared to an effective tax rate of 47.6% for 2007, which reflected a tax benefit on a pre-tax loss. Our effective tax rate for 2008 reflects more tax expense when compared to 2007 primarily as a result of:

- the asbestos charge recorded in the third quarter of 2007;
- the impact on our deferred taxes of favorable tax legislation enacted in Canada, Germany and the United Kingdom during 2007;
- deferred tax benefits recognized in 2007 as part of the sale of our foundry facility in the UK and the sale of our 49% interest in the IMC joint venture; and
- a reduction in the U.S. federal tax benefit on domestic manufacturing activities in 2008 due to lower federal taxable income.

These items were partially offset by the establishment of a $10.4 million deferred tax liability in 2007 related to the estimated additional U.S. federal and state income tax due upon the ultimate repatriation of $194 million of the previously undistributed earnings of certain of our non-U.S. subsidiaries.

Asbestos and Environmental Charges See discussion of the 2007 asbestos charge and the 2008 and 2007 environmental charges beginning on the first page of Management s Discussion and Analysis of Financial Condition and Results of Operations.

## Outlook

### General

Concerns about global economic growth for industrial businesses and disruptions in the financial markets had a significant adverse impact on our end markets and, correspondingly, our results of operations and cash flow in 2009. We experienced a 17% core sales decline during 2009, which far exceeded our initial expectation of a 7% decline. Notwithstanding, the corresponding deleverage on operating profit and impact on cash flow was substantially mitigated by our aggressive cost reduction programs. As described above, we ended 2009 with approximately $175 million in cost savings. We have a culturally embedded, disciplined approach to ensuring our cost structure is properly aligned to demand and we have planned modest declines in headcount and manufacturing infrastructure during 2010. At the same time, we are continuing to make investments in additional front end resources and support

new product development activities in order to grow our market share. With respect to core growth, while we continue to see uncertainty in several of our target markets, for example, in the longer-cycle energy, chemical and pharmaceutical and commercial aerospace markets, we also see signs of stabilization in some of our shorter cycle businesses. In summary, we expect sales to be generally flat compared to 2009. We expect core sales in Fluid Handling and Merchandising Systems to be flat, and a sales decline in our Aerospace Group is expected to be offset by modest increases in sales in the Electronics Group, Engineered Materials and Controls businesses. Segment level details with respect to our 2010 outlook for sales and operating profit are provided below.

### Aerospace & Electronics

Our Aerospace & Electronics segment has experienced a significant increase in operating profit in 2009 when compared to last year. This increase was driven by 1) substantially lower engineering expense in the Aerospace Group as we completed key activities related to the development of new products for the Boeing 787 and Airbus A400M programs, 2) the favorable impact of the 787 Settlement Claim, and 3) in our Electronics Group, stable demand in the defense electronics business, strong program execution and aggressive cost reduction programs. Specific to our Aerospace Group, pursuant to the settlement agreement, our supply contract will now be direct to Boeing, and we have resumed work, on a funded basis, on a modified version of the brake control monitoring system. With this new arrangement, we expect continued declines in engineering expense in the Aerospace Group through 2010. Partially offsetting the expected benefit of lower engineering expense, volumes and profits are expected to be unfavorably impacted by further softening of long-cycle sales to commercial aerospace customers. In summary, we expect a decline in Aerospace Group sales, driven by both the softening commercial aerospace market and the absence of the 787 Settlement Claim, and a modest decline in operating profit driven by the impact of the lower sales and the absence of the 787 Settlement Claim, partially offset by lower engineering expense. In the Electronics Group, considering both the acquisition of Merrimac Industries, Inc. ( Merrimac ) and the divestiture of GTC, sales are expected to be slightly higher and operating profit generally flat.

### Engineered Materials

Our Engineered Materials business segment experienced a significant improvement in operating profit in 2009 when compared to last year, notwithstanding a higher than expected 33% decline in sales. The increase in operating profit primarily reflected the absence of a $19 million restructuring charge recorded in 2008, as well as the favorable impact of culturally embedded cost discipline and productivity savings. The sales decline reflected substantially lower volumes to RV manufacturers, coupled with sharp declines in our building product and transportation customers. While the RV and transportation end markets are showing signs of stabilization, we expect continued pressure in our building products business, as the U.S. non-residential construction industry is forecasted to decline further in 2010. Considering all of the foregoing, which includes our expectation of targeted market share gains and new product introductions that we expect to largely offset potential further deterioration in our end markets in 2010, coupled with our leaner organizational structure, we expect a modest increase in both sales and operating profit.

### Merchandising Systems

Depressed conditions in end markets for our Vending Solutions and Payment Solutions businesses has put pressure on our operating margins within our Merchandising Systems segment. Specifically, we experienced a 27% and 34% decline in sales and operating profit, respectively (this comparison includes a $16 million decrease in restructuring charges compared to 2008). In response, we have taken aggressive steps to reduce costs across the business, including reducing headcount by 12% during 2009 (which follows a 14% reduction in 2008 compared to 2007) and, within Vending Solutions, completing the consolidation of our two large North American plants. Notably, demand for higher margin Payment Solutions products declined substantially through the second half of the year as end-market applications, including retail, transportation, and non-U.S. gaming, declined sharply. However, while still at very depressed levels, we experienced a sequential quarterly increase in fourth quarter sales for our Vending Solutions products. We anticipate stabilization in Vending Solutions product demand in 2010, but continued market weakness for our Payment Solutions products. With planned new product introduction and targeted market share gains, we expect sales in 2010 to be generally flat with 2009. We also expect operating profit to be generally flat, based largely upon a full year of savings related to 2009 consolidation activities and other productivity improvements, offset by lower sales of higher margin Payment Solutions products.

### Fluid Handling

Our Fluid Handling segment experienced a $27 million decline in operating profit, or 17% compared to 2008. The operating profit decline was driven by deleverage associated with volume declines across substantially all businesses. Softness in the North American industrial market and general weakness in global refining and power markets resulted in project deferrals and lower MRO sales. Continued weakness in the non-residential construction market also contr