CRANE CO /DE/
Form 10-Q
November 06, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One:

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2008

OR

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

Commission File Number: 1-1657

CRANE CO.

(Exact name of registrant as specified in its charter)

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

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

(Not Applicable)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company. See definitions of large accelerated filer , 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 ¨ (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

The number of shares outstanding of the issuer s classes of common stock, as of October 31, 2008

Common stock, $1.00 Par Value 59,826,434 shares

Part I Financial Information

Item 1. Financial Statements

Crane Co. and Subsidiaries

Condensed Consolidated Statements of Operations

(In thousands, except shares and per share amounts)

(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net sales	$ 642,678	$ 664,093	$ 2,015,028	$ 1,953,208
Operating costs and expenses:				
Cost of sales	434,382	445,603	1,342,560	1,321,560
Asbestos provision, net		390,150		390,150
Selling, general and administrative	153,678	140,957	456,230	413,919
Operating profit (loss)	54,618	(312,617)	216,238	(172,421)
Other income (expense)				
Interest income	3,212	1,535	8,379	3,837
Interest expense	(6,053)	(6,845)	(19,236)	(20,614)
Miscellaneous - net	(83)	849	1,878	3,593
	(2,924)	(4,461)	(8,979)	(13,184)
Income (loss) before income taxes	51,694	(317,078)	207,259	(185,605)
Provision (benefit) for income taxes	15,612	(120,128)	63,790	(78,036)
Net income (loss)	$ 36,082	$ (196,950)	$ 143,469	$ (107,569)
Basic net income (loss) per share:	$ 0.60	$ (3.29)	$ 2.40	$ (1.79)
Diluted net income (loss) per share:	$ 0.60	$ (3.29)	$ 2.36	$ (1.79)
Average basic shares outstanding	59,811	59,884	59,884	60,008
Average diluted shares outstanding	60,485	59,884	60,694	60,008
Dividends per share	$ 0.20	$ 0.18	$ 0.56	$ 0.48

See Notes to Condensed Consolidated Financial Statements.

Crane Co. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	(Unaudited) September 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 278,431	$ 283,370
Accounts receivable, net	359,418	345,176
Current insurance receivable - asbestos	33,600	33,600
Inventories, net:		
Finished goods	109,752	109,337
Finished parts and subassemblies	52,700	39,108
Work in process	58,169	51,923
Raw materials	147,909	127,351
Inventories, net	368,530	327,719
Other current assets	64,289	47,757
Total current assets	1,104,268	1,037,622
Property, plant and equipment:		
Cost	768,453	749,968
Less: accumulated depreciation	474,847	460,285
Property, plant and equipment, net	293,606	289,683
Long-term insurance receivable - asbestos	276,449	306,557
Long-term deferred tax assets	187,189	220,370
Other assets	118,589	128,360
Intangible assets, net	114,968	128,150
Goodwill	770,052	766,550
Total assets	$ 2,865,121	$ 2,877,292

See Notes to Condensed Consolidated Financial Statements.

Crane Co. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	(Unaudited) September 30, 2008	December 31, 2007
Liabilities and shareholders equity		
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 1,022	$ 548
Accounts payable	195,787	177,978
Current asbestos liability	84,000	84,000
Accrued liabilities	234,828	230,295
U.S. and foreign taxes on income	2,073	731
Total current liabilities	517,710	493,552
Long-term debt	398,434	398,301
Accrued pension and postretirement benefits	47,860	52,233
Long-term deferred tax liability	32,014	31,880
Long-term asbestos liability	877,754	942,776
Other liabilities	55,690	65,353
Total liabilities	1,929,462	1,984,095
Minority interest	7,811	8,394
Commitments and contingencies (Note 9)		
Shareholders equity:		
Preferred shares, par value $.01; 5,000,000 shares authorized		
Common stock, par value $1.00; 200,000,000 shares authorized, 72,426,139 shares issued	72,426	72,426
Capital surplus	154,188	148,513
Retained earnings	951,636	845,864
Accumulated other comprehensive income	107,088	154,077
Treasury stock	(357,490)	(336,077)
Total shareholders equity	927,848	884,803
Total liabilities and shareholders equity	$ 2,865,121	$ 2,877,292
Common stock issued	72,426,139	72,426,139
Less: Common stock held in treasury	(12,595,563)	(12,264,788)
Common stock outstanding	59,830,576	60,161,351

See Notes to Condensed Consolidated Financial Statements.

Crane Co. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2008	2007
Operating activities:		
Net income (loss)	$ 143,469	$ (107,569)
Income from joint venture		(3,798)
Asbestos provision, net		390,150
(Gain) loss on divestiture	(932)	975
Depreciation and amortization	43,965	44,740
Stock-based compensation expense	10,447	11,173
Deferred income taxes	22,639	(140,243)
Cash used for working capital	(35,435)	(39,532)
(Payments) receipts for asbestos-related fees and costs, net of insurance recoveries	(34,915)	7,311
Other	(18,774)	(16,889)
Total provided by operating activities	130,464	146,318
Investing activities:		
Capital expenditures	(33,658)	(33,412)
Proceeds from disposition of capital assets	728	11,610
Proceeds from divestitures	2,106	2,005
Payment for acquisitions, net of cash acquired	(28,009)	(65,166)
Total used for investing activities	(58,833)	(84,963)
Financing activities:		
Equity:		
Dividends paid	(33,521)	(28,828)
Reacquisition of shares on the open market	(40,000)	(50,001)
Stock options exercised - net of shares reacquired	8,704	10,102
Excess tax benefit from stock-based compensation	1,388	4,081
Debt:		
Repayments of long-term debt		(300)
Net increase in short-term debt	411	15,492
Total used for financing activities	(63,018)	(49,454)
Effect of exchange rates on cash and cash equivalents	(13,552)	11,740
(Decrease) increase in cash and cash equivalents	(4,939)	23,641
Cash and cash equivalents at beginning of period	283,370	138,607
Cash and cash equivalents at end of period	$ 278,431	$ 162,248
Detail of cash used for working capital		
Accounts receivable	$ (17,824)	$ (41,253)
Inventories	(44,469)	(13,020)

Other current assets	(3,442)	(110)
Accounts payable	18,271	22,724
Accrued liabilities	9,504	9,682
U.S. and foreign taxes on income	2,525	(17,555)
Total	$ (35,435)	$ (39,532)
Supplemental disclosure of cash flow information:		
Interest paid	$ 18,878	$ 20,049
Income taxes paid	36,792	56,576

Part I Financial Information

Item 1. Financial Statements

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and the instructions to Form 10-Q and, therefore, reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These interim condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

2. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). This statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosure about fair value measurements. In February 2008, the FASB issued Staff Positions SFAS No. 157-1 and SFAS No. 157-2 which delayed the effective date of SFAS No. 157 for one year for certain non-financial assets and non-financial liabilities and removed certain leasing transactions from its scope. The Company adopted SFAS No. 157 effective January 1, 2008 for financial assets and financial liabilities measured on a recurring basis (see Note 14, Fair Value Measurements). The Company is currently evaluating the provisions of SFAS No. 157-1 and SFAS No. 157-2 to determine the potential impact, if any, these staff positions will have on the Company s financial statements when they are applicable beginning in the first quarter of 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree and recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. SFAS No. 141(R) also sets forth the disclosures required to be made in the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The effects of the adoption of this standard in 2009 will be prospective.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent s equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 also requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. SFAS No. 160 also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of this statement on our consolidated financial statements.

3. Segment Results

Financial information by reportable segment is set forth below:

(In thousands)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Net Sales				
Aerospace & Electronics	$ 159,716	$ 158,999	$ 484,095	$ 467,563
Engineered Materials	58,174	80,719	213,884	256,180
Merchandising Systems	93,611	98,462	323,348	296,389
Fluid Handling	293,621	290,826	883,221	834,983
Controls	37,556	35,087	110,480	98,093
Total	$ 642,678	$ 664,093	$ 2,015,028	$ 1,953,208
Operating Profit (Loss)				
Aerospace & Electronics	$ 10,896	$ 23,090	$ 45,378	$ 68,481
Engineered Materials	4,410	15,742	24,164	49,713
Merchandising Systems	10,884	9,755	42,361	31,298
Fluid Handling	34,915	37,477	126,233	102,014
Controls	3,277	3,129	8,124	8,331
Corporate, excluding asbestos provision (a)	(9,764)	(11,660)	(30,022)	(42,108)
Asbestos provision, net (b)		(390,150)		(390,150)
Total	54,618	(312,617)	216,238	(172,421)
Interest income	3,212	1,535	8,379	3,837
Interest expense	(6,053)	(6,845)	(19,236)	(20,614)
Miscellaneous - net	(83)	849	1,878	3,593
Income (loss) before income taxes	$ 51,694	$ (317,078)	$ 207,259	$ (185,605)

(a) The first nine months of 2008 includes $4.4 million of reimbursements related to environmental remediation activities. The first nine months of 2007 includes a $7.6 million provision for a legal settlement.

(b) During the three months ended September 30, 2007, the Company updated and extended its estimate of its asbestos claims liability and recorded an additional provision of approximately $390 million. (Note 9).

	As of September 30, 2008	December 31, 2007
Assets		
Aerospace & Electronics	$ 475,174	$ 466,673
Engineered Materials	300,619	305,384
Merchandising Systems	340,015	348,914
Fluid Handling	906,195	868,873
Controls	87,140	84,390
Corporate	755,978	803,058
Total	$ 2,865,121	$ 2,877,292

4. Net Income (Loss) Per Share

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

(In thousands, except per share data)	**Three Months Ended September 30, 2008**	**2007**	**Nine Months Ended September 30, 2008**	**2007**
Net income (loss)	$ 36,082	$ (196,950)	$ 143,469	$ (107,569)
Average basic shares outstanding	59,811	59,884	59,884	60,008
Effect of dilutive stock options	674		810	
Average diluted shares outstanding	60,485	59,884	60,694	60,008
Basic net income (loss) per share	$ 0.60	$ (3.29)	$ 2.40	$ (1.79)
Diluted net income (loss) per share	$ 0.60	$ (3.29)	$ 2.36	$ (1.79)

Certain options granted under the Company s Stock Incentive Plan and the Non-Employee Director Stock Compensation Plan were not included in the computation of diluted earnings per share in the three-month and nine-month periods ended September 30, 2008, because they would not have had a dilutive effect (1.4 million average options for the third quarter of 2008, and 1.3 million average options for the first nine months of 2008). Due to the net losses in the three-month and nine-month periods ended September 30, 2007, the effect of stock options is not used in the calculation of average shares outstanding for those periods because the effect would be anti-dilutive.

5. Comprehensive Income (Loss)

Total comprehensive income (loss) for the three and nine-month periods ended September 30, 2008 and 2007 is as follows:

(In thousands)	**Three Months Ended September 30, 2008**	**2007**	**Nine Months Ended September 30, 2008**	**2007**
Net income (loss)	$ 36,082	$ (196,950)	$ 143,469	$ (107,569)
Foreign currency translation adjustments	(68,469)	27,810	(46,989)	48,585
Comprehensive (loss) income	$ (32,387)	$ (169,140)	$ 96,480	$ (58,984)

6. Goodwill and Intangible Assets

Changes to goodwill are as follows:

(In thousands)	Nine Months Ended September 30, 2008	Year Ended December 31, 2007
Balance at beginning of period	$ 766,550	$ 704,736
Additions	17,160	46,406
Divestitures		(634)
Translation and other adjustments	(13,658)	16,042
Balance at end of period	$ 770,052	$ 766,550

Changes to intangible assets are as follows:

(In thousands)	Nine Months Ended September 30, 2008	Year Ended December 31, 2007
Balance at beginning of period, net	$ 128,150	$ 122,744
Additions		19,409
Translation and other adjustments	(913)	3,886
Amortization expense	(12,269)	(17,889)
Balance at end of period, net	$ 114,968	$ 128,150

A summary of intangible assets is as follows:

	September 30, 2008		December 31, 2007	
(In thousands)	Gross Asset	Accumulated Amortization	Gross Asset	Accumulated Amortization
Intellectual property rights	$ 92,032	$ 46,889	$ 92,286	$ 43,720
Customer relationships and backlog	85,204	28,655	85,204	17,448
Drawings	10,825	10,028	10,825	9,681
Other	20,896	8,417	23,784	13,100
Total	$ 208,957	$ 93,989	$ 212,099	$ 83,949

Amortization expense for these intangible assets is currently estimated to be approximately $3.3 million for the remaining quarter in 2008, $12.5 million in 2009, $11.3 million in 2010, $10.0 million in 2011, $8.1 million in 2012 and $50.8 million in 2013 and thereafter. Included within intangible assets is $18.9 million of intangibles with indefinite useful lives, consisting of trade names which are not being amortized in accordance with the guidance of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets .

7. Acquisitions

In September 2008, the Company acquired Delta Fluid Products Limited (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 approximately $28 million in cash. Delta had sales of approximately $37 million in 2007 and employed approximately 220 people in its manufacturing operation in St. Helens, England. This acquisition is being integrated into the Company s Fluid Handling segment. In connection with this acquisition, the Company recorded goodwill of approximately $17 million based on its preliminary allocation of purchase price to the fair value of net assets acquired. The final purchase price allocation is expected to be completed in the first quarter of 2009. The pro-forma impact of this acquisition is not material.

8. Accrued Liabilities

Accrued liabilities consists of:

(In thousands)	September 30, 2008	December 31, 2007
Employee related expenses	$ 101,725	$ 94,044
Warranty	27,190	32,218
Other	105,913	104,033
Total	$ 234,828	$ 230,295

9. Commitments and Contingencies

Asbestos Liability

Information Regarding Claims and Costs in the Tort System

As of September 30, 2008, the Company was a defendant in cases filed in various state and federal courts alleging injury or death as a result of exposure to asbestos. Activity related to asbestos claims during the periods indicated was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2008	2007	2008	2007	2007
Beginning claims	81,979	84,652	80,999	85,941	85,941
New claims	936	694	3,585	2,691	3,417
Settlements *	(323)	(109)	(963)	(909)	(1,441)
Dismissals	(6,411)	(3,986)	(7,440)	(6,472)	(6,918)
Ending claims **	76,181	81,251	76,181	81,251	80,999

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* Includes Norris judgment payment.

** Does not include 36,375 maritime actions that were filed in the United States District Court for the Northern District of Ohio and transferred to the Eastern District of Pennsylvania pursuant to an order by the Federal Judicial Panel on Multi-District Litigation (MDL). These claims have been placed on the inactive docket of cases that are administratively dismissed without prejudice in the MDL.

Of the 76,181 pending claims as of September 30, 2008, approximately 25,000 claims were pending in New York, approximately 18,500 claims were pending in Mississippi, approximately 9,400 claims were pending in Texas and approximately 3,800 claims were pending in Ohio, all jurisdictions in which legislation or judicial orders restrict the types of claims that can proceed to trial on the merits.

Substantially all of the claims the Company resolves are concluded through settlements. The Company tried the Joseph Norris asbestos claim (the Norris Claim) to verdict in California, however, and received an adverse jury verdict on September 15, 2006. On October 10, 2006, the court entered judgment on this verdict against the Company in the amount of $2.15 million, together with interest thereon at the rate of 10% per annum until paid. The Company appealed the judgment, and on June 25, 2008, the Supreme Court of California declined to review an appellate court ruling adverse to the Company. The final judgment amount of $2.54 million was paid on July 14, 2008.

During the fourth quarter of 2007 and the first quarter of 2008, the Company tried several cases resulting in defense verdicts by the jury or directed verdicts for the defense by the court. However, on March 14, 2008, the Company received an adverse verdict in the James Baccus claim in Philadelphia, Pennsylvania, with compensatory damages of $2.45 million and additional damages of $11.9 million. The Company has filed a post-trial motion asserting numerous errors in the trial proceedings, and no judgment has been entered on the trial verdict. The Company intends to pursue all available rights to appeal the verdict.

On May 16, 2008, the Company received an adverse verdict in the Chief Brewer claim in Los Angeles, California. The amount of the judgment entered was approximately $679,000 plus interest and costs. Such judgment amounts are not included in the Company s incurred costs until available appeals are exhausted and the final payment amount is determined. The Company is pursuing post-trial motions and an appeal, as necessary.

The gross settlement and defense costs incurred (before insurance recoveries and tax effects) for the Company in the nine-month periods ended September 30, 2008 and 2007 totaled $71.1 million and $64.7 million, respectively. In contrast to the recognition of settlement and defense costs that reflect the current level of activity in the tort system, cash payments and receipts generally lag the tort system activity by several months or more, and may show some fluctuation from quarter to quarter. Cash payments of settlement amounts are not made until all releases and other required documentation are received by the Company, and reimbursements of both settlement amounts and defense costs by insurers may be uneven due to insurer payment practices, transitions from one insurance layer to the next excess layer and the payment terms of certain reimbursement agreements. The Company s total pre-tax cash receipts/payments for settlement and defense costs, including payments from insurers, in the nine-month periods ended September 30, 2008 and 2007 totaled a $34.9 million net payment and $7.3 million net receipt (reflecting the January 2007 receipt of $31.5 million in previously escrowed funds from Equitas), respectively. Detailed below are the comparable amounts for the periods indicated.

	Three Months Ended September 30,		**Nine Months Ended September 30,**		**Year Ended**	**Cumulative to Date Through**
(In millions)	**2008**	**2007**	**2008**	**2007**	**December 31, 2007**	**September 30, 2008**
Settlement / indemnity costs incurred (1)	$ 15.2	$ 11.2	$ 33.0	$ 30.5	$ 41.6	$ 157.1
Defense costs incurred (1)	12.5	12.2	38.1	34.2	45.9	200.5
Total costs incurred	$ 27.7	$ 23.4	$ 71.1	$ 64.7	$ 87.5	$ 357.6
Pre-tax cash payments/(receipts)(2)	$ 18.3	$ 7.9	$ 34.9	($ 7.3)	$ 10.2	$ 170.8

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(1) Before insurance recoveries and tax effects.

(2) Net of payments received from insurers, including a $31.5 million payment from Equitas in January 2007. Cumulative amounts include certain legal fees and expenses related to the terminated Master Settlement Agreement in 2005.

The amounts shown for settlement and defense costs incurred, and cash payments, are not necessarily indicative of future period amounts, which may be higher or lower than those reported.

Effects on the Condensed Consolidated Financial Statements

The Company has retained the firm of Hamilton, Rabinovitz & Associates, Inc. (HR&A), a nationally recognized expert in the field, to assist management in estimating the Company s asbestos liability in the tort system. HR&A reviews information provided by the Company concerning claims filed, settled and dismissed, amounts paid in settlements and relevant claim information such as the nature of the asbestos-related disease asserted by the claimant, the jurisdiction where filed and the time lag from filing to disposition of the claim. The methodology used by HR&A to project future asbestos costs is based largely on the Company s experience during the two full preceding calendar years (and additional quarterly periods to the estimate date) for claims filed, settled and dismissed. The Company s experience is then compared to the results of previously conducted epidemiological studies estimating the number of individuals likely to develop asbestos-related diseases. Those studies were undertaken in connection with national analyses of the population of workers believed to have been exposed to asbestos. Using that information, HR&A estimates the number of future claims that would be filed against the Company, as well as the related settlement or indemnity costs that would be incurred to resolve those claims. This methodology has been accepted by numerous courts. After discussions with the Company, HR&A augments its liability estimate for the costs of defending asbestos claims in the tort system using a forecast from the Company which is based upon discussions with its defense counsel. Based on this information, HR&A compiles an estimate of the Company s asbestos liability for pending and future claims, based on claim experience over the past two to three years and