

CRANE CO /DE/
Form 10-Q
August 03, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

Mark One:

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

For the Quarterly Period Ended June 30, 2017

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

- Large accelerated filer Accelerated filer
- (Do not check if a smaller reporting company)
- Non-accelerated filer Smaller reporting company
- Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the issuer's classes of common stock, as of July 31, 2017

Common stock, \$1.00 Par Value – 59,600,573 shares

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PART I: FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS
CRANE CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net sales	\$702.5	\$712.2	\$1,375.9	\$1,372.2
Operating costs and expenses:				
Cost of sales	444.3	449.1	873.8	875.2
Selling, general and administrative	146.6	160.5	293.9	309.3
Restructuring gain	—	—	—	(0.4)
Transaction related charges	2.6	—	2.6	—
Operating profit	109.0	102.6	205.6	188.1
Other income (expense):				
Interest income	0.6	0.5	1.1	1.0
Interest expense	(9.0)	(9.2)	(18.0)	(18.3)
Miscellaneous, net	(0.9)	(0.3)	(1.0)	(0.6)
	(9.3)	(9.0)	(17.9)	(17.9)
Income before income taxes	99.7	93.6	187.7	170.2
Provision for income taxes	30.4	25.2	55.1	46.6
Net income before allocation to noncontrolling interests	69.3	68.4	132.6	123.6
Less: Noncontrolling interest in subsidiaries' earnings	0.1	0.2	0.3	0.3
Net income attributable to common shareholders	\$69.2	\$68.2	\$132.3	\$123.3
Earnings per share:				
Basic	\$1.16	\$1.17	\$2.23	\$2.11
Diluted	\$1.14	\$1.15	\$2.19	\$2.09
Average shares outstanding:				
Basic	59.5	58.3	59.4	58.3
Diluted	60.5	59.2	60.4	59.0
Dividends per share	\$0.33	\$0.33	\$0.66	\$0.66

See Notes to Condensed Consolidated Financial Statements.

CRANE CO. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (IN MILLIONS)
 (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income before allocation to noncontrolling interests	\$69.3	\$68.4	\$132.6	\$123.6
Other comprehensive income (loss), net of tax				
Currency translation adjustment	36.4	(15.0)	58.6	16.8
Changes in pension and postretirement plan assets and benefit obligation, net of tax	2.3	1.9	4.6	3.8
Other comprehensive income (loss), net of tax	38.7	(13.1)	63.2	20.6
Comprehensive income before allocation to noncontrolling interests	108.0	55.3	195.8	144.2
Less: Noncontrolling interests in comprehensive income	0.3	—	0.7	0.3
Comprehensive income attributable to common shareholders	\$107.7	\$55.3	\$195.1	\$143.9
See Notes to Condensed Consolidated Financial Statements.				

CRANE CO. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (IN MILLIONS)
 (UNAUDITED)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$509.3	\$ 509.7
Accounts receivable, net	436.4	396.4
Current insurance receivable - asbestos	18.0	18.0
Inventories, net:		
Finished goods	107.2	97.7
Finished parts and subassemblies	40.3	38.2
Work in process	62.8	56.0
Raw materials	157.4	150.6
Inventories, net	367.7	342.5
Current deferred tax asset	—	29.6
Other current assets	20.9	19.5
Total current assets	1,352.3	1,315.7
Property, plant and equipment:		
Cost	862.6	826.9
Less: accumulated depreciation	575.5	548.0
Property, plant and equipment, net	287.1	278.9
Long-term insurance receivable - asbestos	110.8	125.2
Long-term deferred tax assets	196.4	181.8
Other assets	97.5	95.0
Intangible assets, net	293.1	282.2
Goodwill	1,196.6	1,149.2
Total assets	\$3,533.8	\$ 3,428.0

See Notes to Condensed Consolidated Financial Statements.

CRANE CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

	June 30, 2017	December 31, 2016
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 209.2	\$ 223.2
Current asbestos liability	71.0	71.0
Accrued liabilities	200.2	223.1
U.S. and foreign taxes on income	6.8	3.5
Total current liabilities	487.2	520.8
Long-term debt	745.7	745.3
Accrued pension and postretirement benefits	243.5	249.1
Long-term deferred tax liability	40.7	42.4
Long-term asbestos liability	582.4	624.9
Other liabilities	103.2	99.8
Total liabilities	2,202.7	2,282.3
Commitments and contingencies (Note 8)		
Equity:		
Preferred shares, par value \$0.01; 5,000,000 shares authorized	—	—
Common shares, par value \$1.00; 200,000,000 shares authorized, 72,426,139 shares issued	72.4	72.4
Capital surplus	280.5	276.9
Retained earnings	1,813.0	1,719.9
Accumulated other comprehensive loss	(413.3)	(476.1)
Treasury stock	(434.1)	(459.3)
Total shareholders' equity	1,318.5	1,133.8
Noncontrolling interests	12.6	11.9
Total equity	1,331.1	1,145.7
Total liabilities and equity	\$ 3,533.8	\$ 3,428.0
Share Data:		
Common shares issued	72,426,139	72,426,139
Less: Common shares held in treasury	(12,857,977)	(13,461,280)
Common shares outstanding	59,568,162	58,964,859
See Notes to Condensed Consolidated Financial Statements.		

CRANE CO. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (IN MILLIONS)
 (UNAUDITED)

	Six Months Ended June 30,	
	2017	2016
Operating activities:		
Net income attributable to common shareholders	\$ 132.3	\$ 123.3
Noncontrolling interests in subsidiaries' earnings	0.3	0.3
Net income before allocation to noncontrolling interests	132.6	123.6
Depreciation and amortization	35.5	34.1
Stock-based compensation expense	11.1	11.4
Defined benefit plans and postretirement credit	(4.2)	(4.8)
Deferred income taxes	10.0	7.6
Cash used for operating working capital	(83.1)	(81.1)
Defined benefit plans and postretirement contributions	(3.8)	(4.4)
Environmental payments, net of reimbursements	(2.7)	(6.6)
Asbestos related payments, net of insurance recoveries	(28.2)	(25.7)
Other	3.2	(2.3)
Total provided by operating activities	70.4	51.8
Investing activities:		
Capital expenditures	(20.8)	(26.6)
Proceeds from disposition of capital assets	—	0.7
Payments for acquisitions - net of cash acquired	(54.1)	—
Total used for investing activities	(74.9)	(25.9)
Financing activities:		
Dividends paid	(39.3)	(38.5)
Stock options exercised, net of shares reacquired	17.8	2.2
Proceeds from issuance of commercial paper, net	—	51.3
Total (used for) provided by financing activities	(21.5)	15.0
Effect of exchange rates on cash and cash equivalents	25.6	4.5
(Decrease) increase in cash and cash equivalents	(0.4)	45.4
Cash and cash equivalents at beginning of period	509.7	363.5
Cash and cash equivalents at end of period	\$509.3	\$408.9
Detail of cash used for working capital:		
Accounts receivable	\$(25.8)	\$(38.2)
Inventories	(13.3)	(14.8)
Other current assets	(0.7)	(3.7)
Accounts payable	(21.0)	(18.3)
Accrued liabilities	(27.5)	(3.1)
U.S. and foreign taxes on income	5.2	(3.0)
Total	\$(83.1)	\$(81.1)
Supplemental disclosure of cash flow information:		
Interest paid	\$ 17.7	\$ 18.3
Income taxes paid	\$ 39.9	\$ 41.9
See Notes to Condensed Consolidated Financial Statements.		

Note 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. All such adjustments are of a normal recurring nature. 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, 2016.

Recent Accounting Pronouncements - Not Yet Adopted

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the Financial Accounting Standard Board ("FASB") issued amended guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amended guidance requires the disaggregation of the service cost component from the other components of net periodic benefit costs and present it with other current compensation costs for related employees in the income statement, and present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. This amended guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of the amended guidance to have a material impact on its consolidated statements of operations and related disclosures.

Restricted Cash

In November 2016, the FASB issued amended guidance to address diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. The amended guidance requires restricted cash and restricted cash equivalents to be classified in the statements of cash flows as cash and cash equivalents. This amended guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, using a retrospective transition method. Early adoption is permitted. The Company does not expect the adoption of the amended guidance to have a material impact on its consolidated statements of cash flows.

Income Taxes on Intra-Entity Transfers of Assets

In October 2016, the FASB issued amended guidance related to the recognition of income taxes resulting from intra-entity transfers of assets other than inventory. The guidance requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. This amended guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, using a modified retrospective approach, with the cumulative effect recognized through retained earnings at the date of adoption. Early adoption is permitted. The Company does not expect the adoption of the amended guidance to have a material impact on its consolidated financial statements and related disclosures.

Cash Flow Simplification

In August 2016, the FASB issued amended guidance that clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The amended guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Upon adoption, entities must apply the guidance retrospectively to all periods presented. The Company is currently evaluating the impact that the amended guidance will have on its consolidated statements of cash flows.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued amended guidance that changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that will replace today’s “incurred loss” model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. This amended guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first effective reporting period. The Company does not expect that the amended guidance will have a material effect on its consolidated financial statements and related disclosures.

Leases

In February 2016, the FASB issued amended guidance on accounting for leases. The amended guidance requires the recognition of a right-of-use asset and a lease liability for all leases by lessees with the exception of short-term leases and amends disclosure requirements associated with leasing arrangements. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018 using a modified retrospective transition approach. Early adoption is permitted. The Company is currently evaluating when to adopt the new standard, and the impact that the amended guidance will have on its consolidated financial statements and related disclosures.

Revenue Recognition

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all current industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB agreed to a one-year deferral of the effective date; the new standard is now effective for reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of the new revenue standard is permitted; however, entities reporting under U.S. GAAP were not permitted to adopt the standard earlier than the original effective date, which was for years beginning after December 15, 2016. The new standard can be applied either retrospectively to each prior period presented (full retrospective method) or retrospectively with a cumulative-effect adjustment as of the date of initial application (modified retrospective method).

The Company developed a project plan and established a cross-functional implementation team consisting of representatives from across all of its business segments. The project plan includes analyzing the impact of the standard on its contract portfolio by reviewing its current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to its revenue contracts. The Company has made significant progress on its contract reviews and continues to evaluate the impact of the adoption of this standard on its consolidated financial statements, related disclosures and transition method. While the Company anticipates potentially increased over time revenue recognition for certain revenue contracts, the Company does not believe the standard will have a material effect on its consolidated financial statements. The Company expects to adopt the standard as of January 1, 2018, under the modified retrospective method.

Recent Accounting Pronouncements - Adopted

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued amended guidance to simplify the presentation of deferred income taxes. The amendments require deferred tax liabilities and assets to be classified as noncurrent. The amended guidance is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this guidance on a prospective basis in the first quarter of 2017. Prior periods in its consolidated financial statements were not retrospectively adjusted.

Inventory

In July 2015, the FASB issued amended guidance, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. The guidance defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and is effective for fiscal years beginning after December 15, 2016, and interim

periods within those years. The Company adopted the guidance in the first quarter of 2017. The adoption of the guidance did not have a material impact on its consolidated financial statements.

Share-Based Payments

In March 2016, the FASB issued amended guidance related to employee share-based payment accounting. The amended guidance simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, statutory tax withholding requirements, forfeitures and classification on the statement of cash flows. This amended guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company elected to early adopt this guidance in the fourth quarter of 2016. The primary impact of adoption was the recognition of excess tax benefits in its provision for income taxes, rather than paid-in capital, of \$0.4 million for the year ended December 31, 2016. Cash flows related to excess tax benefits for share-based payments are now included in the consolidated statements of cash flows as net operating activities rather than net financing activities. The changes have been applied prospectively and prior periods have not been adjusted. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented on the consolidated statement of cash flows since such cash flows have historically been presented as a financing activity. Furthermore, the Company elected to continue to estimate expected forfeitures of employee equity awards to determine the amount of compensation expense to be recognized in each period.

Note 2 - Acquisitions

In April 2017, the Company acquired all of the outstanding stock of Westlock Controls (“Westlock”) from Emerson Electric Co. for cash consideration of \$40 million. Westlock is a global leader in the manufacturing and sale of switchboxes, position transmitters and other solutions for networking, monitoring and controlling process valves and will allow the Company to expand into a new product space but is still in close adjacency to what the Company already does in its Fluid Handling market. With primary operations located in Saddle Brook, New Jersey, Westlock had 2016 sales of approximately \$32 million. Initial allocation of the purchase price resulted in the Company recording goodwill of \$22.6 million. This acquisition is being integrated into the Company’s Fluid Handling segment, and the pro-forma impact is not material.

In June 2017, the Company acquired all of the outstanding stock of Microtronic AG (“Microtronic”) for cash consideration of approximately \$18 million. With operations in Oensingen, Switzerland, Microtronic develops and manufactures closed electronic payment systems, primarily for the European vending market, strengthening the Company’s portfolio of cashless solutions. Initial allocation of the purchase price resulted in the Company recording goodwill of \$6.6 million. This acquisition is being integrated into the Company’s Payment & Merchandising Technologies segment, and the pro-forma impact is not material.

Note 3 - Segment Results

The Company’s segments are reported on the same basis used internally for evaluating performance and for allocating resources. The Company has four reportable segments: Fluid Handling, Payment & Merchandising Technologies, Aerospace & Electronics and Engineered Materials. Assets of the reportable segments exclude general corporate assets, which principally consist of cash, deferred tax assets, insurance receivables, certain property, plant and equipment, and certain other assets. Corporate consists of corporate office expenses including compensation and benefits for corporate employees, occupancy, depreciation, and other administrative costs.

(in millions)	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Net sales				
Fluid Handling	\$263.8	\$265.9	\$503.4	\$513.9
Payment & Merchandising Technologies	198.2	192.6	393.7	364.5
Aerospace & Electronics	171.1	189.2	334.5	361.0
Engineered Materials	69.4	64.5	144.3	132.8
Total	\$702.5	\$712.2	\$1,375.9	\$1,372.2
Operating profit (loss)				
Fluid Handling	\$31.6	\$35.4	\$58.7	\$60.8
Payment & Merchandising Technologies	42.5	34.5	81.6	62.5
Aerospace & Electronics	38.0	38.6	70.0	71.7
Engineered Materials	13.3	13.5	27.3	27.2
Corporate *	(16.4)	(19.4)	(32.0)	(34.1)
Total	109.0	102.6	205.6	188.1
Interest income	0.6	0.5	1.1	1.0
Interest expense	(9.0)	(9.2)	(18.0)	(18.3)
Miscellaneous - net	(0.9)	(0.3)	(1.0)	(0.6)
Income before income taxes	\$99.7	\$93.6	\$187.7	\$170.2

* Includes a \$5 million legal settlement charge in the three and six months ended June 30, 2016.

(in millions)	As of	
	June 30, 2017	December 31, 2016
Assets		
Fluid Handling	\$924.1	\$ 845.9
Payment & Merchandising Technologies	1,221.7	1,188.9
Aerospace & Electronics	567.8	555.5
Engineered Materials	228.3	224.7
Corporate	591.9	613.0
Total	\$3,533.8	\$ 3,428.0

(in millions)	As of	
	June 30, 2017	December 31, 2016
Goodwill		
Fluid Handling	\$241.1	\$ 212.3
Payment & Merchandising Technologies	581.8	563.3
Aerospace & Electronics	202.4	202.3
Engineered Materials	171.3	171.3
Total	\$1,196.6	\$ 1,149.2

The table below presents net sales by product line for each segment:

(in millions)	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Fluid Handling				
Process Valves and Related Products	\$165.8	\$165.9	\$314.5	\$321.0
Commercial Valves	75.0	76.5	144.5	148.9
Other Products	23.0	23.5	44.4	44.0
Total Fluid Handling	\$263.8	\$265.9	\$503.4	\$513.9
Payment & Merchandising Technologies				
Payment Acceptance and Dispensing Products	\$148.6	\$132.4	\$294.5	\$249.9
Merchandising Equipment	49.6	60.2	99.2	114.6
Total Payment & Merchandising Technologies	\$198.2	\$192.6	\$393.7	\$364.5
Aerospace & Electronics				
Commercial Original Equipment	\$87.3	\$92.1	\$169.8	\$182.1
Military and Other Original Equipment	40.9	49.0	78.9	89.6
Commercial Aftermarket Products	31.6	34.0	63.7	64.4
Military Aftermarket Products	11.3	14.1	22.1	24.8
Total Aerospace & Electronics	\$171.1	\$189.2	\$334.5	\$361.0
Engineered Materials				
FRP - Recreational Vehicles	\$38.1	\$32.1	\$79.7	\$67.2
FRP - Building Products	23.9	22.9	48.4	45.4
FRP - Transportation	7.4	9.5	16.2	20.2
Total Engineered Materials	\$69.4	\$64.5	\$144.3	\$132.8
Total Net Sales	\$702.5	\$712.2	\$1,375.9	\$1,372.2

Note 4 - Earnings Per Share

The Company's basic earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Shares of restricted stock are included in the computation of both basic and diluted earnings per share. Potentially dilutive securities include outstanding stock options, restricted share units, deferred stock units and performance-based restricted share units. The effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury method. Diluted earnings per share gives effect to all potentially dilutive common shares outstanding during the period.

	Three Months Ended		Six Months Ended	
(in millions, except per share data)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income attributable to common shareholders	\$69.2	\$68.2	\$132.3	\$123.3
Average basic shares outstanding	59.5	58.3	59.4	58.3
Effect of dilutive stock options	1.0	0.9	1.0	0.7
Average diluted shares outstanding	60.5	59.2	60.4	59.0
Earnings per basic share	\$1.16	\$1.17	\$2.23	\$2.11
Earnings per diluted share	\$1.14	\$1.15	\$2.19	\$2.09

The computation of diluted earnings per share excludes the effect of the potential exercise of stock options when the average market price of the common stock is lower than the exercise price of the related stock options. During the period, 0.6 million and 1.2 million average options were excluded from the second quarter of 2017 and 2016, respectively, and 0.4 million and 1.3 million average options were excluded for the first half of 2017 and 2016, respectively.

Note 5 - Changes in Equity and Accumulated Other Comprehensive Loss

A summary of changes in equity for the six months ended June 30, 2017 and 2016 is provided below:

(in millions)	Six Months Ended June 30,			Six Months Ended June 30,		
	2017			2016		
	Total	Noncontrolling	Total Equity	Total	Noncontrolling	Total Equity
	Shareholders	Interests		Shareholders	Interests	
	Equity			Equity		
Balance, beginning of period	\$1,133.8	\$ 11.9	\$ 1,145.7	\$1,139.4	\$ 11.4	\$ 1,150.8
Dividends	(39.3)	—	(39.3)	(38.5)	—	(38.5)
Exercise of stock options, net of shares reacquired	17.8	—	17.8	2.2	—	2.2
Stock compensation expense	11.1	—	11.1	11.4	—	11.4
Excess tax shortfall from stock based compensation	—	—	—	(0.3)	—	(0.3)
Net income	132.3	0.3	132.6	123.3	0.3	123.6
Other comprehensive income	62.8	0.4	63.2	20.6	—	20.6
Comprehensive income	195.1	0.7	195.8	143.9	0.3	144.2
Balance, end of period	\$1,318.5	\$ 12.6	\$ 1,331.1	\$ 1,258.1	\$ 11.7	\$ 1,269.8

The table below provides the accumulated balances for each classification of accumulated other comprehensive loss, as reflected on the Condensed Consolidated Balance Sheets.

(in millions)	Defined Benefit Pension and Other Postretirement Items*	Currency Translation Adjustment	Total
Balance as of December 31, 2016	\$ (301.3)	\$ (174.8)	\$(476.1)
Other comprehensive income before reclassifications	0.1	58.2	58.3
Amounts reclassified from accumulated other comprehensive income	4.5	—	4.5
Net current-period other comprehensive income	4.6	58.2	62.8
Balance as of June 30, 2017	\$ (296.7)	\$ (116.6)	\$(413.3)

* Net of tax benefit of \$117.8 million and \$119.8 million as of June 30, 2017 and December 31, 2016, respectively.

The table below illustrates the amounts reclassified out of each component of accumulated other comprehensive loss for the three month periods ended June 30, 2017 and 2016.

Details of Accumulated Other Comprehensive Income Components (in millions)	Amounts Reclassified		Affected Line Item in the Statements of Operations
	Accumulated Other Comprehensive Income Three Months Ended June 30, 2017	2016	
Amortization of defined benefit pension items:			
Prior-service costs	\$ (0.1)	\$ (0.2)	\$(0.1) and \$(0.3) has been recorded within Cost of sales for the three months ended June 30, 2017 and 2016, respectively, and \$0 and \$0.1 has been recorded within Selling, general & administrative for the three months ended June 30, 2017 and 2016, respectively.
Net loss	3.5	2.9	\$4.7 and \$3.9 has been recorded within Cost of sales for the three months ended June 30, 2017 and 2016, respectively, and \$(1.2) and \$(1.0) has been recorded within Selling, general & administrative for the three months ended June 30, 2017 and 2016, respectively.
Amortization of other postretirement items:			
Prior-service costs	(0.1)	(0.1)	Recorded within Selling, general & administrative
Net gain	(0.1)	(0.1)	Recorded within Selling, general & administrative
	\$ 3.2	\$ 2.5	Total before tax
	1.0	0.7	Tax benefit
Total reclassifications for the period	\$ 2.2	\$ 1.8	Net of tax

The table below illustrates the amounts reclassified out of each component of accumulated other comprehensive loss for the six month periods ended June 30, 2017 and 2016.

Details of Accumulated Other Comprehensive Income Components (in millions)	Amounts Reclassified		Affected Line Item in the Statement of Operations
	Accumulated Other Comprehensive Income Six Months Ended June 30, 2017	2016	
Amortization of defined benefit pension items:			
Prior-service costs	\$ (0.2)	\$ (0.4)	\$(0.3) and \$(0.5) has been recorded within Cost of sales for the six months ended June 30, 2017 and 2016, respectively, and \$0.1 and \$0.1 has been recorded within Selling, general & administrative for the six months ended June 30, 2017 and 2016, respectively
Net loss	7.0	5.8	\$9.5 and \$7.9 has been recorded within Cost of sales for the six months ended June 30, 2017 and 2016, respectively, and (\$2.5) and

(\$2.1) has been recorded within Selling, general & administrative for the six months ended June 30, 2017 and 2016, respectively

Amortization of other
postretirement items:

Prior-service costs	(0.1)	(0.2)	Recorded within Selling, general & administrative
Net gain	(0.2)	(0.2)	Recorded within Selling, general & administrative
	\$ 6.5	\$ 5.0	Total before tax
	2.0	1.4	Tax benefit
Total reclassifications for the period	\$ 4.5	\$ 3.6	Net of tax

Note 6 - Goodwill and Intangible Assets

The Company's business acquisitions have typically resulted in the recognition of goodwill and other intangible assets. The Company follows the provisions under ASC Topic 350, "Intangibles – Goodwill and Other" ("ASC 350") as it relates to the accounting for goodwill in the Condensed Consolidated Financial Statements. These provisions require that the Company, on at least an annual basis, evaluate the fair value of the reporting units to which goodwill is assigned and attributed and compare that fair value to the carrying value of the reporting unit to determine if an impairment has occurred. The Company performs its annual impairment testing during the fourth quarter. Impairment testing takes place more often than annually if events or circumstances indicate a change in status that would indicate a potential impairment. The Company believes that there have been no events or circumstances which would more likely than not reduce the fair value for its reporting units below its carrying value. A reporting unit is an operating segment unless discrete financial information is prepared and reviewed by segment management for businesses one level below that operating segment (a "component"), in which case the component would be the reporting unit. As of June 30, 2017, the Company had seven reporting units.

When performing its annual impairment assessment, the Company compares the fair value of each of its reporting units to its respective carrying value. Goodwill is considered to be potentially impaired when the net book value of the reporting unit exceeds its estimated fair value. Fair values are established primarily by discounting estimated future cash flows at an estimated cost of capital which varies for each reporting unit and which, as of the Company's most recent annual impairment assessment, ranged between 9.0% and 12.0% (a weighted average of 10.5%), reflecting the respective inherent business risk of each of the reporting units tested. This methodology for valuing the Company's reporting units (commonly referred to as the Income Method) has not changed since the adoption of the provisions under ASC 350. The determination of discounted cash flows is based on the businesses' strategic plans and long-range planning forecasts, which change from year to year. The revenue growth rates included in the forecasts represent best estimates based on current and forecasted market conditions. Profit margin assumptions are projected by each reporting unit based on the current cost structure and anticipated net cost increases/reductions. There are inherent uncertainties related to these assumptions, including changes in market conditions, and management judgment is necessary in applying them to the analysis of goodwill impairment. In addition to the foregoing, for each reporting unit, market multiples are used to corroborate its discounted cash flow results where fair value is estimated based on earnings multiples determined by available public information of comparable businesses. While the Company believes it has made reasonable estimates and assumptions to calculate the fair value of its reporting units, it is possible a material change could occur. If actual results are not consistent with management's estimates and assumptions, goodwill and other intangible assets may then be determined to be overstated and a charge would need to be taken against net earnings. Furthermore, in order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test performed during the fourth quarter of 2016, the Company applied a hypothetical, reasonably possible 10% decrease to the fair values of each reporting unit. The effects of this hypothetical 10% decrease would still result in the fair value calculation exceeding the carrying value for each reporting unit.

Changes to goodwill are as follows:

(in millions)	Fluid Handling	Payment & Merchandising & Technologies	Aerospace & Electronics	Engineered Materials	Total
Balance as of December 31, 2015	\$ 218.7	\$ 575.2	\$ 202.6	\$ 171.4	\$ 1,167.9
Currency translation	(6.4)	(11.9)	(0.3)	(0.1)	(18.7)
Balance at December 31, 2016	\$ 212.3	\$ 563.3	\$ 202.3	\$ 171.3	\$ 1,149.2
Additions	22.6	6.6	—	—	29.2
Currency translation	6.2	11.9	0.1	—	18.2
Balance as of June 30, 2017	\$ 241.1	\$ 581.8	\$ 202.4	\$ 171.3	\$ 1,196.6

For the six month period ended June 30, 2017, additions to goodwill represent the initial purchase price allocation related to the April 2017 acquisition of Westlock and the June 2017 acquisition of Microtronic. See discussion in Note 2, "Acquisitions" for further details.

As of June 30, 2017, the Company had \$293.1 million of net intangible assets, of which \$28.0 million were intangibles with indefinite useful lives, consisting of trade names. Intangibles with indefinite useful lives are tested annually for impairment, or when events or changes in circumstances indicate the potential for impairment. If the carrying amount of an indefinite lived intangible asset exceeds its fair value, the intangible asset is written down to its fair value. Fair value is calculated using relief from royalty method. The Company amortizes the cost of definite-lived intangibles over their estimated useful lives.

In addition to annual testing for impairment of indefinite-lived intangible assets, the Company reviews all of its definite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Examples of events or changes in circumstances could include, but are not limited to, a prolonged economic downturn, current period operating or cash flow losses combined with a history of losses or a forecast of continuing losses associated with the use of an asset or asset group, or a current expectation that an asset or asset group will be sold or disposed of before the end of its previously estimated useful life. Recoverability is based upon projections of anticipated future undiscounted cash flows associated with the use and eventual disposal of the definite-lived intangible asset (or asset group), as well as specific appraisal in certain instances. Reviews occur at the lowest level for which identifiable cash flows are largely independent of cash flows associated with other long-lived assets or asset groups and include estimated future revenues, gross profit margins, operating profit margins and capital expenditures which are based on the businesses' strategic plans and long-range planning forecasts, which change from year to year. The revenue growth rates included in the forecasts represent the Company's best estimates based on current and forecasted market conditions, and the profit margin assumptions are based on the current cost structure and anticipated net cost increases/reductions. There are inherent uncertainties related to these assumptions, including changes in market conditions, and management's judgment in applying them to the analysis. If the future undiscounted cash flows are less than the carrying value, then the definite-lived intangible asset is considered impaired and a charge would be taken against net earnings based on the amount by which the carrying amount exceeds the estimated recoverable amount. Judgments that the Company makes which impact these assessments relate to the expected useful lives of definite-lived assets and its ability to realize any undiscounted cash flows in excess of the carrying amounts of such assets, and are affected primarily by changes in the expected use of the assets, changes in technology or development of alternative assets, changes in economic conditions, changes in operating performance and changes in expected future cash flows. Since judgment is involved in determining the recoverable amount of definite-lived intangible assets, there is risk that the carrying value of the Company's definite-lived intangible assets may require adjustment in future periods. Historical results to date have generally approximated expected cash flows for the identifiable cash flow generating level. The Company believes there have been no events or circumstances which would more likely than not reduce the fair value of its indefinite-lived or definite-lived intangible assets below their carrying value.

Changes to intangible assets are as follows:

(in millions)	Six Months Ended June 30, 2017	Year Ended December 31, 2016
Balance at beginning of period, net of accumulated amortization	\$282.2	\$ 317.1
Additions	18.1	—
Amortization expense	(14.8)	(30.7)
Currency translation and other	7.6	(4.2)
Balance at end of period, net of accumulated amortization	\$293.1	\$ 282.2

For the six month period ended June 30, 2017, additions to intangible assets represent the initial purchase price allocation related to the April 2017 acquisition of Westlock and the June 2017 acquisition of Microtronic. See discussion in Note 2, "Acquisitions" for further details.

A summary of intangible assets follows:

(in millions)	Weighted Average Amortization Period of Finite Lived Assets (in years)	June 30, 2017			December 31, 2016		
		Gross Asset	Accumulated Amortization	Net	Gross Asset	Accumulated Amortization	Net
Intellectual property rights	16.6	\$89.3	\$ 52.3	\$37.0	\$86.4	\$ 52.1	\$34.3
	15.7	414.2	168.6	245.6	388.9	153.4	235.5

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Customer relationships
and backlog

Drawings	37.9	11.1	10.3	0.8	11.1	10.3	0.8
Other	13.0	61.2	51.5	9.7	60.3	48.7	11.6
Total	15.9	\$575.8	\$ 282.7	\$293.1	\$546.7	\$ 264.5	\$282.2

Future amortization expense associated with intangibles is expected to be:

Year (in millions)	
2017	\$15.6
2018	28.5
2019	26.1
2020	22.1
2021 and after	172.8

Note 7 - Accrued Liabilities

Accrued liabilities consist of:

(in millions)	June 30, December 31,	
	2017	2016
Employee related expenses	\$ 77.1	\$ 95.4
Warranty	15.1	15.5
Advanced payment from customers	18.4	19.0
Other	89.6	93.2
Total	\$ 200.2	\$ 223.1

The Company accrues warranty liabilities when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Warranty provision is included in Cost of sales in the Condensed Consolidated Statements of Operations.

A summary of the warranty liabilities is as follows:

(in millions)	Six	Year
	Months	Year
	Ended	Ended
	June 30,	December
	2017	31, 2016
Balance at beginning of period	\$ 15.5	\$ 15.1
Expense	7.5	14.5
Changes due to acquisitions	0.2	—
Payments / deductions	(8.3)	(13.4)
Currency translation	0.2	(0.7)
Balance at end of period	\$ 15.1	\$ 15.5

Note 8 - Commitments and Contingencies

Asbestos Liability

Information Regarding Claims and Costs in the Tort System

As of June 30, 2017, the Company was a defendant in cases filed in numerous 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 June 30, 2017		Six Months Ended June 30, 2017		Year Ended December 31, 2016
Beginning claims	35,560	40,649	36,052	41,090	41,090
New claims	684	662	1,502	1,642	2,826
Settlements	(327)	(147)	(628)	(541)	(924)
Dismissals	(3,937)	(2,500)	(4,946)	(3,527)	(6,940)
Ending claims	31,980	38,664	31,980	38,664	36,052

Of the 31,980 pending claims as of June 30, 2017, approximately 18,300 claims were pending in New York, approximately 800 claims were pending in Texas, approximately 1,500 claims were pending in Mississippi, and approximately 200 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.

The Company has tried several cases resulting in defense verdicts by the jury or directed verdicts for the defense by the court. The Company further has pursued appeals of certain adverse jury verdicts that have resulted in reversals in favor of the defense.

On March 23, 2010, a Philadelphia, Pennsylvania, state court jury found the Company responsible for a 1/11th share of a \$14.5 million verdict in the James Nelson claim. On February 23, 2011, the court entered judgment on the verdict in the amount of \$4.0 million, jointly, against the Company and two other defendants, with additional interest in the amount of \$0.01 million being assessed against the Company, only. All defendants, including the Company, and the plaintiffs took timely appeals of certain aspects of those judgments. On September 5, 2013, a panel of the Pennsylvania Superior Court, in a 2-1 decision, vacated the Nelson verdict against all defendants, reversing and remanding for a new trial. Plaintiffs requested a rehearing in the Superior Court and by order dated November 18, 2013, the Superior Court vacated the panel opinion, and granted en banc reargument. On December 23, 2014, the Superior Court issued a second opinion reversing the jury verdict. Plaintiffs sought leave to appeal to the Pennsylvania Supreme Court, which defendants have opposed. By order dated June 21, 2017, the Supreme Court of Pennsylvania denied plaintiffs' petition for leave to appeal. The case may be set for a new trial in 2018.

On August 17, 2011, a New York City state court jury found the Company responsible for a 99% share of a \$32 million verdict on the Ronald Dummitt claim. The Company filed post-trial motions seeking to overturn the verdict, to grant a new trial, or to reduce the damages, which the Company argued were excessive under New York appellate case law governing awards for non-economic losses. The Court held oral argument on these motions on October 18, 2011 and issued a written decision on August 21, 2012 confirming the jury's liability findings but reducing the award of damages to \$8 million. At plaintiffs' request, the Court entered a judgment in the amount of \$4.9 million against the Company, taking into account settlement offsets and accrued interest under New York law. The Company appealed, and the judgment was affirmed in a 3-2 decision and order dated July 3, 2014. The Company appealed to the New York Court of Appeals. The court heard oral arguments on May 3, 2016 and affirmed the judgment in a decision dated June 28, 2016. The judgment, with interest, in the amount of \$6.6 million was paid in the third quarter 2016.

On October 23, 2012, the Company received an adverse verdict in the Gerald Suttner claim in Buffalo, New York. The jury found that the Company was responsible for four percent (4%) of plaintiffs' damages of \$3 million. The Company filed post-trial motions requesting judgment in the Company's favor notwithstanding the jury's verdict, which were denied. The court entered a judgment of \$0.1 million against the Company. The Company appealed, and the judgment was affirmed by order dated March 21, 2014. The Company sought reargument of this decision, which was

denied. The Company sought review before the New York Court of Appeals, which was accepted in the fourth quarter of 2014. The court heard oral arguments on May 3, 2016 and affirmed the judgment in a decision dated June 28, 2016. The judgment, with interest, in the amount of \$0.2 million was paid in the third quarter 2016.

On November 28, 2012, the Company received an adverse verdict in the James Hellam claim in Oakland, CA. The jury found that the Company was responsible for seven percent (7%) of plaintiffs' non-economic damages of \$4.5 million, plus a portion of their economic damages of \$0.9 million. Based on California court rules regarding allocation of damages, judgment was entered against the Company in the amount of \$1.282 million. The Company filed post-trial motions requesting judgment in the Company's favor notwithstanding the jury's verdict and also requesting that settlement offsets be applied to reduce the judgment in accordance with California law. On January 31, 2013, the court entered an order disposing partially of that motion. On March 1, 2013, the Company filed an appeal regarding the portions of the motion that were denied. The court entered judgment against the Company in the amount of \$1.1 million. The Company appealed. By opinion dated April 16, 2014, the Court of Appeal affirmed the finding of liability against the Company, and the California Supreme Court denied review of this ruling. The Court of Appeal reserved the arguments relating to recoverable damages to a subsequent appeal that remains pending. On August 21, 2015, the Court of Appeal reversed the trial court with respect to a \$20,000 damages item, but affirmed the trial court in all other respects. The Company sought review of that ruling before the Supreme Court of California, which was denied. The Company settled the matter in December 2015. The settlement was reflected in the fourth quarter 2015 indemnity amount.

On February 25, 2013, a Philadelphia, Pennsylvania, state court jury found the Company responsible for a 1/10th share of a \$2.5 million verdict in the Thomas Amato claim and a 1/5th share of a \$2.3 million verdict in the Frank Vinciguerra claim, which were consolidated for trial. The Company filed post-trial motions requesting judgments in the Company's favor notwithstanding the jury's verdicts or new trials, and also requesting that settlement offsets be applied to reduce the judgment in accordance with Pennsylvania law. These motions were denied. The Company appealed, and on April 17, 2015, a panel of the Superior Court of Pennsylvania affirmed the trial court's ruling. The Supreme Court of Pennsylvania accepted the Company's petition for review and heard oral arguments on September 13, 2016. On November 22, 2016, the Court dismissed the Company's appeal as improvidently granted. The Company paid the Vinciguerra judgment in the amount of \$0.6 million in the fourth quarter 2016. The Company paid the Amato judgment, with interest, in the amount of \$0.3 million in the second quarter 2017.

On March 1, 2013, a New York City state court jury entered a \$35 million verdict against the Company in the Ivo Peraica claim. The Company filed post-trial motions seeking to overturn the verdict, to grant a new trial, or to reduce the damages, which the Company argues were excessive under New York appellate case law governing awards for non-economic losses and further were subject to settlement offsets. After the trial court remitted the verdict to \$18 million, but otherwise denied the Company's post-trial motion, judgment was entered against the Company in the amount of \$10.6 million (including interest). The Company appealed. The Company took a separate appeal of the trial court's denial of its summary judgment motion. The Court consolidated the appeals, which were heard in the fourth quarter of 2014. In July 2016 the Company supplemented its briefing based on the New York Court of Appeals Dummitt/Suttner decision. On October 6, 2016, a panel of the Appellate Division, First Department, affirmed the rulings of the trial court on liability issues but further reduced the damages award to \$4.25 million, which after settlement offsets is calculated to be \$1.94 million. Plaintiff has the option of accepting the reduced amount or having a new trial on damages. The Company filed a motion with the Appellate Division requesting a rehearing on liability issues. The motion was denied. The New York Court of Appeals also denied review. The Company paid in the first quarter of 2017 the Peraica plaintiffs \$2.7 million, which is the amount that plaintiffs claim to be owed under this judgment, pursuant to stipulations that enabled the Company to continue to pursue its ongoing appeal in this case.

On July 31, 2013, a Buffalo, New York state court jury entered a \$3.1 million verdict against the Company in the Lee Holdsworth claim. The Company filed post-trial motions seeking to overturn the verdict, to grant a new trial, or to reduce the damages, which the Company argues were excessive under New York appellate case law governing awards for non-economic losses and further were subject to settlement offsets. Post-trial motions were denied, and the court entered judgment in the amount of \$1.7 million. On June 12, 2015, the Appellate Division, Fourth Department, affirmed the trial court's ruling denying the Company's motion for summary judgment. The court denied reargument of that ruling. The Company pursued a further appeal of the trial court rulings and judgment, which was argued on May 16, 2016. On July 8, 2016, the Court vacated the judgment and granted the Company a new trial on the issue of whether the Company is subject to joint-and-several liability under New York law. Plaintiff filed a motion to enter judgment in the trial court in the amount allegedly unaffected by the appellate ruling, approximately \$1.0 million, and

the Company opposed the motion. The Company settled the matter. The settlement was reflected in the fourth quarter 2016 indemnity amount.

On September 11, 2013, a Columbia, South Carolina state court jury in the Lloyd Garvin claim entered an \$11 million verdict for compensatory damages against the Company and two other defendants jointly, and also awarded exemplary damages against the Company in the amount of \$11 million. The jury also awarded exemplary damages against both other defendants. The Company filed post-trial motions seeking to overturn the verdict, which were denied, except that the Court remitted the compensatory damages award to \$2.5 million and exemplary damages award to \$3.5 million. Considering settlement offsets,

the Court further reduced the total damages award to \$3.5 million. The Company settled the matter. The settlement is reflected in the first quarter 2015 indemnity amount.

On September 17, 2013, a Fort Lauderdale, Florida state court jury in the Richard DeLisle claim found the Company responsible for 16 percent of an \$8 million verdict. The trial court denied all parties' post-trial motions, and entered judgment against the Company in the amount of \$1.3 million. The Company has appealed. Oral argument on the appeal took place on February 16, 2016. On September 14, 2016 a panel of the Florida Court of Appeals reversed and entered judgment in favor of the Company. Plaintiff filed with the Court of Appeals a motion for rehearing and/or certification of an appeal to the Florida Supreme Court, which the Court denied on November 9, 2016. Plaintiffs have subsequently requested review by the Supreme Court of Florida. Plaintiffs' motion was granted on July 11, 2017. On June 16, 2014, a New York City state court jury entered a \$15 million verdict against the Company in the Ivan Sweberg claim and a \$10 million verdict against the Company in the Selwyn Hackshaw claim. The two claims were consolidated for trial. The Company filed post-trial motions seeking to overturn the verdicts, to grant new trials, or to reduce the damages, which were denied, except that the Court reduced the Sweberg award to \$10 million, and reduced the Hackshaw award to \$6 million. Judgments have been entered in the amount of \$5.3 million in Sweberg and \$3.1 million in Hackshaw. The Company appealed. Oral argument on Sweberg took place on February 16, 2016, and oral argument on Hackshaw took place on March 9, 2016. On October 6, 2016, two panels of the Appellate Division, First Department, affirmed the rulings of the trial court on liability issues but further reduced the Sweberg damages award to \$9.5 million and further reduced the Hackshaw damages award to \$3 million, which after settlement offsets are calculated to be \$4.73 million in Sweberg and \$0 in Hackshaw. Plaintiffs were given the option of accepting the reduced awards or having new trials on damages. Plaintiffs subsequently brought an appeal in Hackshaw before the New York Court of Appeals, which the Court denied. The Company filed a motion with the Appellate Division requesting a rehearing on liability issues in Sweberg. That motion was denied. The New York Court of Appeals also denied review. The Company paid in the first quarter of 2017 the Sweberg plaintiffs \$5.7 million, which is the amount that plaintiffs claim to be owed under this judgment, pursuant to stipulations that enabled the Company to continue to pursue its ongoing appeal in this case. No damages are owed in Hackshaw.

On July 2, 2015, a St. Louis, Missouri state court jury in the James Poage claim entered a \$1.5 million verdict for compensatory damages against the Company. The jury also awarded exemplary damages against the Company in the amount of \$10 million. The Company filed a motion seeking to reduce the verdict to account for the verdict set-offs. That motion was denied, and judgment was entered against the Company in the amount of \$10.8 million. The Company initiated an appeal. Oral argument was held on December 13, 2016. In an opinion dated May 2, 2017, a Missouri Court of Appeals panel affirmed the judgment in all respects. The Court of Appeals denied the Company's motion to transfer the case to the Supreme Court of Missouri. The Company has sought leave to appeal before the Supreme Court.

On February 9, 2016, a Philadelphia, Pennsylvania, federal court jury found the Company responsible for a 30 percent share of a \$1.085 million verdict in the Valent Rabovsky claim. The court ordered briefing on the amount of the judgment. The Company argued, among other things, that settlement offsets reduce the award to plaintiff under Pennsylvania law. A further hearing was held April 26, 2016, after which the court denied the Company's request and entered judgment in the amount of \$0.4 million. The Company filed post-trial motions, which were denied in two decisions issued on August 26, 2016 and September 28, 2016. The Company is pursuing an appeal to the Third Circuit Court of Appeals, which was argued on June 12, 2017.

On April 22, 2016, a Phoenix, Arizona federal court jury found the Company responsible for a 20 percent share of a \$9 million verdict in the George Coulbourn claim, and further awarded exemplary damages against the Company in the amount of \$5 million. The jury also awarded compensatory and exemplary damages against the other defendant present at trial. The court entered judgment against the Company in the amount of \$6.8 million. The Company filed post-trial motions, which were denied on September 20, 2016. The Company is pursuing an appeal to the Ninth Circuit Court of Appeals. Briefing will proceed before the Court later this year.

On June 30, 2017, a New York City state court jury entered a \$20 million verdict against the Company in the Geoffrey Anisansel claim. The Company plans to file post-trial motions and an appeal as necessary seeking to overturn the verdict, to grant a new trial, or to reduce the damages, which the Company argues were excessive under New York appellate case law governing awards for non-economic losses and loss of consortium, and further were subject to

settlement offsets.

Such judgment amounts are not included in the Company's incurred costs until all available appeals are exhausted and the final payment amount is determined.

The gross settlement and defense costs incurred (before insurance recoveries and tax effects) for the Company for the six-month periods ended June 30, 2017 and 2016 totaled \$44.8 million and \$37.8 million, respectively. In contrast to the

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recognition of settlement and defense costs, which 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 payments for settlement and defense costs, net of funds received from insurers, for the six-month periods ended June 30, 2017 and 2016 totaled \$28.2 million and \$25.7 million, respectively. Detailed below are the comparable amounts for the periods indicated.

(in millions)	Three Months Ended		Six Months Ended		Year Ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
Settlement / indemnity costs incurred (1)	\$7.3	\$4.4	\$25.8	\$15.7	\$ 30.5
Defense costs incurred (1)	9.5	12.1	19.0	22.1	43.0
Total costs incurred	\$16.8	\$16.5	\$44.8	\$37.8	\$ 73.5
Settlement / indemnity payments	\$9.3	\$8.4	\$23.4	\$13.5	\$ 32.4
Defense payments	11.3	11.7	19.2	20.3	43.7
Insurance receipts	(7.1)	(5.2)	(14.4)	(8.1)	(20.1)
Pre-tax cash payments	\$13.5	\$14.9	\$28.2	\$25.7	\$ 56.0

(1) Before insurance recoveries and tax effects.

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.

Cumulatively through June 30, 2017, the Company has resolved (by settlement or dismissal) approximately 129,000 claims. The related settlement cost incurred by the Company and its insurance carriers is approximately \$509 million, for an average settlement cost per resolved claim of approximately \$4,000. The average settlement cost per claim resolved during the years ended December 31, 2016, 2015 and 2014 was \$3,900, \$3,100 and \$3,800, respectively. Because claims are sometimes dismissed in large groups, the average cost per resolved claim, as well as the number of open claims, can fluctuate significantly from period to period. In addition to large group dismissals, the nature of the disease and corresponding settlement amounts for each claim resolved will also drive changes from period to period in the average settlement cost per claim. Accordingly, the average cost per resolved claim is not considered in the Company's periodic review of its estimated asbestos liability. For a discussion regarding the four most significant factors affecting the liability estimate, see "Effects on the Condensed Consolidated Financial Statements".

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 on the Company's recent historical experience for claims filed, settled and dismissed during a base reference period. The Company's experience is then compared to estimates of the number of individuals likely to develop asbestos-related diseases determined based on widely used previously conducted epidemiological studies augmented with current data inputs. 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 and estimates the aggregate settlement or indemnity costs that would be incurred to resolve both pending and future claims based upon the average settlement costs by disease during the reference period. 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 using a range of reference periods based on claim experience and covering claims expected to be filed through the indicated forecast period. The most significant factors affecting the liability estimate are (1) the number of new mesothelioma claims filed against the

Company, (2) the average settlement costs for mesothelioma claims, (3) the percentage of mesothelioma claims dismissed against the Company and (4) the aggregate defense costs incurred by the Company. These factors are interdependent, and no one factor predominates in determining the liability estimate.

In the Company's view, the forecast period used to provide the best estimate for asbestos claims and related liabilities and costs is a judgment based upon a number of trend factors, including the number and type of claims being filed each year; the jurisdictions where such claims are filed, and the effect of any legislation or judicial orders in such jurisdictions restricting the types of claims that can proceed to trial on the merits; and the likelihood of any comprehensive asbestos legislation at the federal level. In addition, the dynamics of asbestos litigation in the tort system have been significantly affected by the substantial number of companies that have filed for bankruptcy protection, thereby staying any asbestos claims against them until the conclusion of such proceedings, and the establishment of a number of post-bankruptcy trusts for asbestos claimants, which have been estimated to provide \$36 billion for payments to current and future claimants. These trend factors have both positive and negative effects on the dynamics of asbestos litigation in the tort system and the related best estimate of the Company's asbestos liability, and these effects do not move in a linear fashion but rather change over multi-year periods. Accordingly, the Company's management continues to monitor these trend factors over time and periodically assesses whether an alternative forecast period is appropriate.

Each quarter, HR&A compiles an update based upon the Company's experience in claims filed, settled and dismissed as well as average settlement costs by disease category (mesothelioma, lung cancer, other cancer, and non-malignant conditions including asbestosis). In addition to this claims experience, the Company also considers additional quantitative and qualitative factors such as the nature of the aging of pending claims, significant appellate rulings and legislative developments, and their respective effects on expected future settlement values. As part of this process, the Company also takes into account trends in the tort system such as those enumerated above. Management considers all these factors in conjunction with the liability estimate of HR&A and determines whether a change in the estimate is warranted.

Liability Estimate. With the assistance of HR&A, effective as of December 31, 2016, the Company extended its estimate of the 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 the Company through the generally accepted end point of such claims in 2059. The Company's previous estimate was for asbestos claims filed or projected to be filed through 2021. The Company's estimate of the asbestos liability for pending and future claims through 2059 is based on the projected future asbestos costs resulting from the Company's experience using a range of reference periods for claims filed, settled and dismissed. Based on this estimate, the Company recorded an additional liability of \$227 million as of December 31, 2016. This action was based on several factors which contribute to the Company's ability to reasonably estimate this liability through 2059. First, the number of mesothelioma claims (which although constituting approximately 10% of the Company's total pending asbestos claims, have consistently accounted for approximately 90% of the Company's aggregate settlement and defense costs) being filed against the Company and associated settlement costs have stabilized. Second, there have been generally favorable developments in the trend of case law which has been a contributing factor in stabilizing the asbestos claims activity and related settlement costs. Third, there have been significant actions taken by certain state legislatures and courts that have reduced the number and types of claims that can proceed to trial, which has been a significant factor in stabilizing the asbestos claims activity. Fourth, recent court decisions in certain jurisdictions have provided additional clarity regarding the nature of claims that may proceed to trial in those jurisdictions and greater predictability regarding future claim activity. Fifth, the Company has coverage-in-place agreements with almost all of its excess insurers, which enables the Company to project a stable relationship between settlement and defense costs paid by the Company and reimbursements from its insurers. Sixth, annual settlements with respect to groups of cases with certain plaintiff firms have helped to stabilize indemnity payments and defense costs. Taking these factors into account, the Company believes that it can reasonably estimate the asbestos liability for pending claims and future claims to be filed through 2059.

Management has made its best estimate of the costs through 2059 based on the analysis by HR&A completed in January 2017. Through June 30, 2017, the Company's actual experience during the updated reference period for mesothelioma claims filed and dismissed generally approximated the assumptions in the Company's liability estimate. In addition to this claims experience, the Company considered additional quantitative and qualitative factors such as

the nature of the aging of pending claims, significant appellate rulings and legislative developments, and their respective effects on expected future settlement values. Based on this evaluation, the Company determined that no change in the estimate was warranted for the period ended June 30, 2017.

A liability of \$696 million was recorded as of December 31, 2016 to cover the estimated cost of asbestos claims now pending or subsequently asserted through 2059, of which approximately 80% is attributable to settlement and defense costs for future claims projected to be filed through 2059. The liability is reduced when cash payments are made in respect of settled claims and defense costs. The liability was \$653 million as of June 30, 2017. It is not possible to forecast when cash payments related

to the asbestos liability will be fully expended; however, it is expected such cash payments will continue for a number of years past 2059, due to the significant proportion of future claims included in the estimated asbestos liability and the lag time between the date a claim is filed and when it is resolved. None of these estimated costs have been discounted to present value due to the inability to reliably forecast the timing of payments. The current portion of the total estimated liability at June 30, 2017 was \$71 million and represents the Company's best estimate of total asbestos costs expected to be paid during the twelve-month period. Such amount is based upon the HR&A model together with the Company's prior year payment experience for both settlement and defense costs.

Insurance Coverage and Receivables. Prior to 2005, a significant portion of the Company's settlement and defense costs were paid by its primary insurers. With the exhaustion of that primary coverage, the Company began negotiations with its excess insurers to reimburse the Company for a portion of its settlement and/or defense costs as incurred. To date, the Company has entered into agreements providing for such reimbursements, known as "coverage-in-place", with eleven of its excess insurer groups. Under such coverage-in-place agreements, an insurer's policies remain in force and the insurer undertakes to provide coverage for the Company's present and future asbestos claims on specified terms and conditions that address, among other things, the share of asbestos claims costs to be paid by the insurer, payment terms, claims handling procedures and the expiration of the insurer's obligations. Similarly, under a variant of coverage-in-place, the Company has entered into an agreement with a group of insurers confirming the aggregate amount of available coverage under the subject policies and setting forth a schedule for future reimbursement payments to the Company based on aggregate indemnity and defense payments made. In addition, with ten of its excess insurer groups, the Company entered into agreements settling all asbestos and other coverage obligations for an agreed sum, totaling \$82.5 million in aggregate. Reimbursements from insurers for past and ongoing settlement and defense costs allocable to their policies have been made in accordance with these coverage-in-place and other agreements. All of these agreements include provisions for mutual releases, indemnification of the insurer and, for coverage-in-place, claims handling procedures. With the agreements referenced above, the Company has concluded settlements with all but one of its solvent excess insurers whose policies are expected to respond to the aggregate costs included in the liability estimate. That insurer, which issued a single applicable policy, has been paying the shares of defense and indemnity costs the Company has allocated to it, subject to a reservation of rights. There are no pending legal proceedings between the Company and any insurer contesting the Company's asbestos claims under its insurance policies.

In conjunction with developing the aggregate liability estimate referenced above, the Company also developed an estimate of probable insurance recoveries for its asbestos liabilities. In developing this estimate, the Company considered its coverage-in-place and other settlement agreements described above, as well as a number of additional factors. These additional factors include the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, how settlement and defense costs will be covered by the insurance policies and interpretation of the effect on coverage of various policy terms and limits and their interrelationships. In addition, the timing and amount of reimbursements will vary because the Company's insurance coverage for asbestos claims involves multiple insurers, with different policy terms and certain gaps in coverage. In addition to consulting with legal counsel on these insurance matters, the Company retained insurance consultants to assist management in the estimation of probable insurance recoveries based upon the aggregate liability estimate described above and assuming the continued viability of all solvent insurance carriers. Based upon the analysis of policy terms and other factors noted above by the Company's legal counsel, and incorporating risk mitigation judgments by the Company where policy terms or other factors were not certain, the Company's insurance consultants compiled a model indicating how the Company's historical insurance policies would respond to varying levels of asbestos settlement and defense costs and the allocation of such costs between such insurers and the Company. Using the estimated liability as of December 31, 2016 (for claims filed or expected to be filed through 2059), the insurance consultant's model forecasted that approximately 21% of the liability would be reimbursed by the Company's insurers. While there are overall limits on the aggregate amount of insurance available to the Company with respect to asbestos claims, those overall limits were not reached by the total estimated liability currently recorded by the Company, and such overall limits did not influence the Company in its determination of the asset amount to record. The proportion of the asbestos liability that is allocated to certain insurance coverage years, however, exceeds the limits of available insurance in those years. The Company allocates to itself the amount of the

asbestos liability (for claims filed or expected to be filed through 2059) that is in excess of available insurance coverage allocated to such years. An asset of \$143 million was recorded as of December 31, 2016 representing the probable insurance reimbursement for such claims expected through 2059. The asset is reduced as reimbursements and other payments from insurers are received. The asset was \$129 million as of June 30, 2017.

The Company reviews the aforementioned estimated reimbursement rate with its insurance consultants on a periodic basis in order to confirm its overall consistency with the Company's established reserves. The reviews encompass consideration of the performance of the insurers under coverage-in-place agreements and the effect of any additional lump-sum payments under other insurer agreements. Actual insurance reimbursements vary from period to period, and will decline over time, for the reasons cited above.

Uncertainties. Estimation of the Company's 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 and the manner of their resolution. The Company cautions that its estimated liability is based on assumptions with respect to future claims, settlement and defense costs based on past experience that may not prove reliable as predictors; the assumptions are interdependent and no single factor predominates in determining the liability estimate. 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 that withstand appeal. A legislative solution, structured settlement transaction, or significant change in relevant case law could also change the estimated liability.

The same factors that affect developing estimates of probable settlement and defense costs for asbestos-related liabilities also affect estimates of the probable insurance reimbursements, as do a number of additional factors. These additional factors include the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, how settlement and defense costs will be covered by the insurance policies and interpretation of the effect on coverage of various policy terms and limits and their interrelationships. In addition, due to the uncertainties inherent in litigation matters, no assurances can be given regarding the outcome of any litigation, if necessary, to enforce the Company's rights under its insurance policies or settlement agreements.

Many uncertainties exist surrounding asbestos litigation, and the Company will continue to evaluate its estimated asbestos-related liability and corresponding estimated insurance reimbursement as well as the underlying assumptions and process used to derive these amounts. These uncertainties may result in the Company incurring future charges or increases to income to adjust the carrying value of recorded liabilities and assets, particularly if the number of claims and settlement and defense costs change significantly, or if there are significant developments in the trend of case law or court procedures, or if legislation or another alternative solution is implemented. Although the resolution of these claims will likely take many years, the effect on the results of operations, financial position and cash flow in any given period from a revision to these estimates could be material.

Other Contingencies

Environmental Matters

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 as of June 30, 2017 is substantially related to the former manufacturing sites in Goodyear, Arizona (the "Goodyear Site") discussed below.

Goodyear Site

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. In 1990, the U.S. Environmental Protection Agency ("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. 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 (inclusive of a supplemental remediation investigation and feasibility study). During the third quarter of 2014, the EPA issued a Record of Decision amendment permitting, among other things, additional source area remediation resulting in the Company recording a charge of \$49.0 million, extending the accrued costs through 2022. The total estimated gross liability was \$45.4 million as of June 30, 2017, and as described below, a portion is reimbursable by the U.S. Government. The current portion of the total estimated liability was approximately \$16 million and represents the Company's best estimate, in consultation with its technical advisors, of total remediation costs expected to be paid during 2017.

It is not possible at this point to reasonably estimate the amount of any obligation in excess of the Company's current accruals through the 2022 forecast period because of the aforementioned uncertainties, in particular, the continued significant changes in the Goodyear Site conditions and additional expectations of remediation activities experienced in recent years.

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% of qualifying costs of investigation and remediation activities at the Goodyear Site. As of June 30, 2017, the Company has recorded a receivable of \$9.3 million for the expected reimbursements from the U.S. Government in respect of the aggregate liability as at that date. The receivable is reduced as reimbursements and other payments from the U.S. Government are received.

Other Environmental Matters

The Company has been identified as a potentially responsible party (“PRP”) with respect to environmental contamination at the Crab Orchard National Wildlife Refuge Superfund Site (the “Crab Orchard Site”). The Crab Orchard Site is located near Marion, Illinois, and consists of approximately 55,000 acres. Beginning in 1941, the United States used the Crab Orchard Site for the production of ordnance and other related products for use in World War II. In 1947 about half of the Crab Orchard Site was leased to a variety of industrial tenants whose activities (which continue to this day) included manufacturing ordnance and explosives. A predecessor to the Company formerly leased portions of the Crab Orchard Site, and conducted manufacturing operations at the Crab Orchard Site from 1952 until 1964. General Dynamics Ordnance and Tactical Systems, Inc. (“GD-OTS”) is in the process of conducting a remedial investigation and feasibility study for a portion of the Crab Orchard Site (referred to as the “AUS-OU”), which includes an area where the Company maintained operations, pursuant to an Administrative Order on Consent. A remedial investigation report was approved in February 2015, and work on the feasibility study is underway. The final feasibility study is projected to be completed in the third quarter of 2017. The proposed Remedial Plan is projected to be submitted in late 2017, and a final Record of Decision is projected to be issued in April 2018.

GD-OTS has asked the Company to participate in a voluntary cost allocation/mediation exercise with respect to response costs it has incurred or will incur with respect to the AUS-OU. The Company, along with a number of other PRPs that were contacted, initially declined, but in light of the ongoing investigative activities, and the apparent willingness of the U.S. government to participate in a mediation proceeding, the Company and a number of PRPs have agreed to participate in a non-binding mediation process. The Company and other PRPs executed a mediation agreement on March 16, 2015, and the U.S. government, following the resolution of an inter-agency dispute, executed the mediation agreement on August 6, 2015. The participants have selected a mediator, are exchanging relevant information, and have agreed upon a framework for the mediation to address the numerous sub-areas at the Site in a coherent fashion. The first phase of the mediation, involving former munitions or ordnance storage areas, is presently scheduled to be conducted in November 2017. The Company at present cannot predict whether this mediation proceeding will result in an agreement, or when any determination of the allocable share of the various PRPs, including the U.S. Government, is likely to be completed. Although a loss is probable, it is not possible at this time to reasonably estimate the amount of any obligation for remediation of the Crab Orchard Site because the extent of the environmental impact, allocation among PRPs, remediation alternatives, and concurrence of regulatory authorities have not yet advanced to the stage where a reasonable estimate can be made. The Company notified its insurers of this potential liability and has obtained coverage, subject to reservations of rights, under certain of its insurance policies.

Other Proceedings

The Company was named as a defendant in a suit filed in June 2015 by a small group of homeowners in Missoula, Montana, whose homes are near the site of a former lumber mill and wood processing facility (the “White Pine Site”) that operated from approximately 1920 to 1996. The suit alleges that the homeowners’ property was damaged by coming into contact with certain hazardous substances that migrated from the White Pine Site. The White Pine Site was owned and operated by a predecessor to Huttig Building Products, Inc. (“Huttig”), which was a subsidiary of the Company from 1968 until Huttig’s shares were distributed to the Company’s shareholders in 1999. Under the terms of the distribution agreement, Huttig retained the liability for its prior operations. The Company tendered the defense of this matter to Huttig, and Huttig agreed to defend and indemnify the Company. That matter was resolved through a settlement agreement reached between Huttig and the individual plaintiffs, and the case was dismissed as against the Company. In a related matter, Huttig filed suit against certain insurers who Huttig claimed were obligated to provide insurance coverage for the environmental remediation costs and other damages caused by the operations at the White Pine Site. The Company was brought into that case in October 2015 as a third party defendant by two of the insurers seeking declaratory relief that no coverage obligations are owed to Huttig or the Company with respect to the White

Pine Site. In late 2015, Huttig notified the Company of its intention to pursue an action against the Company for damages related to Huttig's environmental liability at the White Pine Site and the scope of coverage under the Company's historical insurance policies available to Huttig for such liability. The Company settled its dispute with Huttig in exchange for a complete release by Huttig of all claims against the Company in connection with the distribution agreement, and a release by Huttig of any and all rights it has or may have had under any of the Company's insurance policies. As a result of this settlement, the Company recorded a \$5 million net pre-tax charge in the second quarter of 2016. In addition, Huttig retained all of its indemnity obligations to the Company as set forth in the distribution agreement, including its indemnity obligations relating to the White Pine Site.

The Company regularly reviews the status of lawsuits, claims and proceedings that have been or may be asserted against the Company relating to the conduct of its business, including those pertaining to product liability, patent infringement, commercial, employment, employee benefits, environmental and stockholder matters. The Company records a provision for a liability for such matters when it is considered probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions, if any, are reviewed quarterly and adjusted as additional information becomes available. If either or both of the criteria are not met, the Company assesses whether there is at least a reasonable possibility that a loss, or additional losses, may have been incurred. If there is a reasonable possibility that a loss or additional loss may have been incurred for such matters, the Company discloses the estimate of the amount of loss or range of loss, discloses that the amount is immaterial, or discloses that an estimate of loss cannot be made, as applicable. The Company believes that as of June 30, 2017, there was no reasonable possibility that a material loss, or any additional material losses, may have been incurred for such matters, and that adequate provision has been made in its financial statements for the potential impact of all such matters.

Other Commitments

The Company entered into a five year operating lease for an airplane in the first quarter of 2014 which included a maximum residual value guarantee of \$7.8 million by the Company if the fair value of the airplane is less than \$9.5 million at the end of the lease term. The Company has accrued \$5.8 million of residual value guarantee as of June 30, 2017.

Note 9 - Pension Benefits

The components of net periodic cost (benefit) are as follows:

(in millions)	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Service cost	\$1.2	\$1.2	\$2.4	\$2.3
Interest cost	7.2	8.2	14.4	16.4
Expected return on plan assets	(13.9)	(14.5)	(27.8)	(28.9)
Amortization of prior service cost	(0.1)	(0.2)	(0.2)	(0.4)
Amortization of net loss	3.5	2.9	7.0	5.8
Net periodic benefit	\$(2.1)	\$(2.4)	\$(4.2)	\$(4.8)

The Company expects, based on current actuarial calculations, to contribute approximately \$12.0 million to its defined benefit plans, of which \$3.5 million has been contributed during the first six months of 2017. The Company contributed \$8.3 million to its defined benefit plans in 2016. Cash contributions for subsequent years will depend on a number of factors, including the impact of the Pension Protection Act signed into law in 2006, changes in minimum funding requirements, long-term interest rates, the investment performance of plan assets and changes in employee census data affecting the Company's projected benefit obligations.

Note 10 - Income Taxes

The Company's quarterly provision for income taxes is measured using an annual effective tax rate, adjusted for discrete items within the period presented.

Effective Tax Rates

The Company's effective tax rates are as follows:

Effective Tax Rate	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Effective Tax Rate	30.5%	27.0%	29.4%	27.4%

The Company's effective tax rate for the three and six months ended June 30, 2017 is higher than the prior year's comparable period primarily due to a higher amount of income earned in jurisdictions with higher statutory tax rates and the favorable resolution of an income tax audit in the second quarter of 2016, partially offset by the favorable effect of share-based compensation.

In addition, the Company's effective tax rate for the six months ended June 30, 2017 is higher than the prior year's comparable period due to the favorable impact of Japanese tax reform in 2016.

The Company's effective tax rate for the three months ended June 30, 2017 is lower than the statutory U.S. federal tax rate of 35% primarily due to the favorable impacts of income earned in jurisdictions with tax rates lower than the U.S. statutory rate, the U.S. federal tax benefit for domestic manufacturing activities, the U.S. federal research credit, and the benefit recorded for excess tax benefits associated with share-based payments. These items are partially offset by the unfavorable impacts of U.S. state taxes and certain expenses that are statutorily non-deductible for income tax purposes.

Unrecognized Tax Benefits

During the three and six months ended June 30, 2017, the Company's gross unrecognized tax benefits, excluding interest and penalties, increased by \$1.5 million and \$2.7 million respectively, primarily as a result of tax positions taken in both the current and prior periods, partially offset by reductions resulting from the expiration of statutes of limitation. During the three and six months ended June 30, 2017, the total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate increased by \$1.4 million and \$2.6 million, respectively. The difference between these amounts relates to (1) offsetting tax effects from other tax jurisdictions, and (2) interest expense, net of deferred taxes.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of its income tax expense. During the three and six months ended June 30, 2017, the Company recognized \$0.1 million and \$0.5 million, respectively, of interest and penalty expense related to unrecognized tax benefits in its Condensed Consolidated Statements of Operations. As of June 30, 2017 and December 31, 2016, the total amount of accrued interest and penalty expense related to unrecognized tax benefits recorded in the Company's Consolidated Balance Sheets was \$6.7 million and \$6.2 million, respectively.

During the next twelve months, it is reasonably possible the Company's unrecognized tax benefits may decrease by \$6.2 million due to the expiration of statutes of limitations and settlements with tax authorities. However, if the ultimate resolution of income tax examinations results in amounts that differ from this estimate, the Company will record additional income tax expense or benefit in the period in which such matters are effectively settled.

Income Tax Examinations

The Company's income tax returns are subject to examination by the U.S. federal, U.S. state and local, and non-U.S. tax authorities.

The Company's consolidated federal income tax returns for the years 2013 through 2015 remain subject to examination by the Internal Revenue Service ("IRS"). In addition, acquired subsidiaries' federal tax carryforwards (2006 through 2012) remain subject to IRS examination.

With few exceptions, the Company is no longer subject to U.S. state and local or non-U.S. income tax examinations for years before 2011. Currently the Company and its subsidiaries are under examination in various jurisdictions, including Germany (2010 through 2012), Canada (2013 through 2015) and California (2012 and 2013).

Note 11 - Long-Term Debt and Short-Term Borrowings

The following table summarizes the Company's debt as of June 30, 2017 and December 31, 2016:

(in millions)	June 30, December 31,	
	2017	2016
Long-term debt consists of:		
2.75% notes due December 2018		
Principal amount	\$250.0	\$ 250.0
Less debt issuance costs	(0.6)	(0.8)
Carrying Value	\$249.4	\$ 249.2
4.45% notes due December 2023		
Principal amount	\$300.0	\$ 300.0
Less debt issuance costs	(1.7)	(1.9)
Carrying Value	\$298.3	\$ 298.1
6.55% notes due November 2036		
Principal Amount	\$200.0	\$ 200.0
Less unamortized discount	(0.7)	(0.7)
Less debt issuance costs	(1.3)	(1.3)
Carrying Value	\$198.0	\$ 198.0
Total long-term debt	\$745.7	\$ 745.3

For additional details regarding the Company's debt financing, reference is made to Note 7, "Long-Term Debt and Notes Payable" of the Company's financial statements as of and for the year ended December 31, 2016 included in the Company's 2016 Annual Report on Form 10-K.

Commercial Paper program - On March 2, 2015, the Company entered into a commercial paper program (the "CP Program") pursuant to which it may issue short-term, unsecured commercial paper notes (the "Notes") pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act of 1933, as amended. Amounts available under the CP Program may be borrowed, repaid and re-borrowed from time to time, with the aggregate principal amount of the Notes outstanding under the CP Program at any time not to exceed \$500 million. The Notes will have maturities of up to 397 days from date of issue. The Notes will rank at least pari passu with all of the Company's other unsecured and unsubordinated indebtedness. As of June 30, 2017, there were no outstanding borrowings under the CP Program.

Revolving Credit Facility - In May 2012, the Company entered into a five year, \$300 million Amended and Restated Credit Agreement (as subsequently amended in March 2013 and increased to \$500 million (the "Facility")). The Facility allows the Company to borrow, repay, or to the extent permitted by the agreement, prepay and re-borrow funds at any time prior to the stated maturity date. The loan proceeds may be used for general corporate purposes including financing for acquisitions. Interest is based on, at its 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 147.5 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, or (iii) an adjusted LIBOR rate plus 100 basis points, plus a spread dependent on the Company's credit rating (5 basis points as of the date of this report; up to a maximum of 47.5 basis points). In May 2015, the Company entered into an amendment ("Amendment No. 2") to the Facility. Amendment No. 2, among other things, (i) extends the maturity date under the Facility to May 2020 and (ii) amends the fee and applicable margins on the revolving loans made pursuant to the Facility. There were no outstanding borrowings under the Facility as of June 30, 2017.

Note 12 - Derivative Instruments and Hedging Activities

The Company is exposed to certain risks related to its ongoing business operations, including market risks related to fluctuation in currency exchange. The Company uses foreign exchange contracts to manage the risk of certain cross-currency business relationships to minimize the impact of currency exchange fluctuations on the Company's earnings and cash flows. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. As of and for the six month period ended June 30, 2017, the foreign exchange contracts designated as hedging instruments did not have a material impact on the Company's condensed consolidated statements of operations, balance sheet or cash flows. Foreign exchange contracts not designated as hedging instruments, which primarily pertain to foreign exchange fluctuation risk of intercompany positions, had a notional value of \$11 million and \$8 million as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017 and December 31, 2016, the Company's receivable position for the foreign exchange contracts was \$0.1 million and less than \$0.1 million, respectively. As of June 30, 2017 and December 31, 2016, the Company's payable position for the foreign exchange contracts was \$0.3 million and \$0.1 million, respectively.

Note 13 - Fair Value Measurements

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are to be considered from the perspective of a market participant that holds the asset or owes the liability. The standards also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standards describe three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical or similar assets and liabilities.

Level 2: Quoted prices for identical or similar assets and liabilities in markets that are not active or observable inputs other than quoted prices in active markets for identical or similar assets and liabilities. Level 2 assets and liabilities include over-the-counter derivatives, principally forward foreign exchange contracts, whose value is determined using pricing models with inputs that are generally based on published foreign exchange rates and exchange traded prices, adjusted for other specific inputs that are primarily observable in the market or can be derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Valuation Technique - The Company's derivative assets and liabilities include foreign exchange contract derivatives that are measured at fair value using internal models based on observable market inputs such as forward rates and interest rates. Based on these inputs, the derivatives are classified within Level 2 of the valuation hierarchy. Such derivative receivable amounts are recorded within other current assets and were \$0.1 million and less than \$0.1 million as of June 30, 2017 and December 31, 2016, respectively. Derivative liability amounts are recorded within accrued liabilities and were \$0.3 million and \$0.1 million as of June 30, 2017 and December 31, 2016, respectively. The carrying value of the Company's financial assets and liabilities, including cash and cash equivalents, accounts receivable, accounts payable and short-term loans payable approximate fair value, without being discounted, due to the short periods during which these amounts are outstanding. Long-term debt rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value for debt issues that are not quoted on an exchange. The estimated fair value of long-term debt is measured using Level 2 inputs and was \$817.2 million and \$801.8 million at June 30, 2017 and December 31, 2016, respectively.

Part I – Financial Information

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains information about Crane Co., 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,” “could,” “should,” “would,” “anticipates,” other similar phrases, or the negatives of these terms.

Reference herein to “Crane”, “the Company”, “we”, “us”, and, “our” refer to Crane Co. and its subsidiaries unless the context specifically states or implies otherwise. References to “core business” or “core sales” in this report include sales from acquired businesses starting from and after the first anniversary of the acquisition, but exclude currency effects.

Amounts in the following discussion are presented in millions, except employee, share and per share data, or unless otherwise stated.

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. In addition, we have based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. There are a number of other factors that could cause actual results or outcomes to differ materially from those addressed in the forward-looking statements. The factors that we currently believe to be material are detailed in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the Securities and Exchange Commission and are incorporated by reference herein.

OUTLOOK

Overall

Our sales depend heavily on industries that are cyclical in nature or are subject to market conditions which may cause customer demand for our products to be volatile and unpredictable. Demand in these industries is affected by fluctuations in domestic and international economic conditions, as well as currency fluctuations, commodity costs, and a variety of other factors.

For 2017, we expect total sales to be approximately flat compared to 2016, with unfavorable foreign exchange of approximately 1% offset by core sales growth of approximately 1% and slightly positive acquisitions related revenue, net of divestitures. We expect a substantial improvement in operating profit and operating margins, driven by the absence of an asbestos provision, improved productivity, higher core sales volume, favorable product mix, and a reduction in engineering expense in our Aerospace & Electronics segment.

Fluid Handling

In 2017, we expect Fluid Handling sales to increase modestly compared to 2016, driven by an acquisition benefit of approximately 2.5% and slightly positive core growth, partially offset by unfavorable foreign currency translation. We expect Process Valves and Related Products sales to increase in the low single-digit range compared to 2016, driven primarily by a low to mid single-digit increase in acquisition related sales, partially offset by unfavorable foreign currency translation. Excluding foreign exchange, we expect order rates in 2017 to increase modestly compared to 2016 as our end markets continue to stabilize. However, given weak order activity in 2016, the backlog entering the year was lower than it was at the beginning of the prior year, limiting core sales growth in 2017.

We expect Commercial Valves sales to increase slightly compared to 2016, with unfavorable foreign exchange more than offset by core growth.

Our Other Products sales are expected to increase slightly compared to 2016, with modest growth in the U.S. municipal market.

For the segment, we expect a modest increase in operating profit compared to 2016, as productivity, leverage on core sales growth, and acquisition benefits more than offset unfavorable foreign exchange and transaction related costs.

Payment & Merchandising Technologies

We expect Payment & Merchandising Technologies sales to increase in the low to mid single-digit range compared to 2016, with a mid to high single-digit improvement in core sales, partially offset by unfavorable foreign currency translation. We expect core sales to improve at CPI, with Merchandising Systems sales declining compared to 2016. At CPI, we expect core sales improvement to be driven by several vertical end markets, including transportation, financial services, and gaming, although the most significant growth is expected from the retail vertical. We expect the segment's operating profit to increase substantially compared to 2016, driven by the higher core sales and productivity, partially offset by unfavorable product mix and unfavorable foreign currency.

Aerospace & Electronics

We expect Aerospace & Electronics core sales to decrease in the mid single-digit range compared to 2016. For 2017, we expect that commercial market conditions will remain generally positive, and we expect sales growth from our commercial original equipment manufacturer business. However, military original equipment sales are expected to decline substantially given the completion of a large military program in 2016 that will not repeat in 2017. We also expect aftermarket sales to decline, primarily as a result of lower modernization and upgrade sales. Despite the reduction in sales, we expect segment operating profit in 2017 to increase slightly compared to 2016 driven by favorable product mix associated with the completion of the large military program, strong productivity and lower engineering expense.

Engineered Materials

In 2017, we expect the Engineered Materials segment sales will increase compared to the prior year, driven by continued strong demand of product shipments to the recreational vehicle ("RV") market. Segment operating profit is expected to increase slightly compared to 2016.

Results from Operations – Three Month Periods Ended June 30

All comparisons below refer to the second quarter 2017 versus the second quarter 2016, unless otherwise specified.

(dollars in millions)	Second Quarter		Change		
	2017	2016	\$	%	
Net sales	\$702.5	\$712.2	\$(9.7)	(1.4))%
Operating profit	109.0	102.6	6.4	6.2	%
Transaction related charges *	2.6	—	2.6	NM	
Operating margin	15.5	% 14.4	%		
Other income (expense):					
Interest income	0.6	0.5	0.1	20.0	%
Interest expense	(9.0)	(9.2)	0.2	2.2	%
Miscellaneous, net	(0.9)	(0.3)	(0.6)	(200.0)	%
	(9.3)	(9.0)	(0.3)	(3.3))%
Income before income taxes	99.7	93.6	6.1	6.5	%
Provision for income taxes	30.4	25.2	5.2	20.6	%
Net income before allocation to noncontrolling interests	69.3	68.4	0.9	1.3	%
Less: Noncontrolling interest in subsidiaries' earnings	0.1	0.2	(0.1)	(50.0))%
Net income attributable to common shareholders	\$69.2	\$68.2	\$1.0	1.5	%

* Transaction related charges are included in operating profit and operating margin.

Sales decreased by \$9.7 million, or 1.4%, to \$702.5 million in 2017. Net sales related to operations outside the United States were 36.6% of total net sales for each of the quarters ended June 30, 2017 and 2016. The year-over-year change in sales included:

- unfavorable foreign currency translation of \$13.8 million, or 1.9%;
- an increase related to a net acquisition/divestiture impact of \$3.4 million, or 0.5%; and
- an increase in core sales of \$0.7 million.

Operating profit increased by \$6.4 million, or 6.2%, to \$109.0 million in 2017. The increase in operating profit reflected the higher operating profit in our Payment & Merchandising Technologies segment and lower corporate costs, partially offset by lower operating profit in our Fluid Handling, Aerospace & Electronics and Engineered Materials segments. Operating profit in the second quarter of 2017 included transaction related charges of \$2.6 million in connection with the acquisitions of Westlock and Microtronic. Operating profit in the second quarter of 2016 included a \$5.0 million legal settlement charge.

Our effective tax rate is affected by a number of items, both recurring and discrete, including the amount of income we earn in different jurisdictions and their respective statutory tax rates, acquisitions and dispositions, changes in the valuation of our deferred tax assets and liabilities, changes in tax laws, regulations and accounting principles, the continued availability of statutory tax credits and deductions, the continued reinvestment of our overseas earnings, and examinations initiated by tax authorities around the world.

Our effective tax rate for the three and six months ended June 30, 2017 is higher than the prior year's comparable period primarily due to a higher amount of income earned in jurisdictions with higher statutory tax rates and the favorable resolution of an income tax audit in the second quarter of 2016, partially offset by the favorable effect of share-based compensation.

	Three Months Ended June 30,	
	2017	2016
Net income before allocation to noncontrolling interests	\$69.3	\$68.4
Other comprehensive income (loss), net of tax		
Currency translation adjustment	36.4	(15.0)
Changes in pension and postretirement plan assets and benefit obligation, net of tax	2.3	1.9
Other comprehensive income (loss), net of tax	38.7	(13.1)
Comprehensive income before allocation to noncontrolling interests	108.0	55.3
Less: Noncontrolling interests in comprehensive income	0.3	—
Comprehensive income attributable to common shareholders	\$107.7	\$55.3

For the three months ended June 30, 2017, comprehensive income before allocations to noncontrolling interests was \$108.0 million compared to \$55.3 million in the same period of 2016. The \$52.7 million increase was primarily driven by a \$51.4 million favorable impact of foreign currency translation adjustments year over year including fluctuations in the British pound, Canadian dollar, euro and Japanese yen.

Segment Results of Operations - Three Month Periods Ended June 30

The following information should be read in conjunction with our condensed consolidated financial statements and related notes.

Fluid Handling

(dollars in millions)	Second Quarter		Change	
	2017	2016	\$	%
Net sales by product line:				
Process Valves and Related Products	\$165.8	\$165.9	\$(0.1)	(0.1)%
Commercial Valves	75.0	76.5	(1.5)	(2.0)%
Other Products	23.0	23.5	(0.5)	(2.1)%
Total net sales	263.8	265.9	(2.1)	(0.8)%
Operating profit	31.6	35.4	(3.8)	(10.7)%
Transaction related charges*	2.0	—	2.0	NM
Operating margin	12.0	% 13.3	%	

* Transaction related charges are included in operating profit and operating margin.

Fluid Handling sales decreased by \$2.1 million, or 0.8%, to \$263.8 million, driven by unfavorable foreign currency translation of \$7.8 million, or 2.9%, partially offset by a \$5.7 million, or 2.1%, increase in sales related to an acquisition. Core sales were approximately flat.

Sales of Process Valves and Related Products decreased by \$0.1 million, or 0.1%, to \$165.8 million in 2017, including a core sales decline of \$4.0 million, or 2.4%, driven by weaker general industrial and refining demand, along with unfavorable foreign currency translation of \$1.9 million, or 1.1%, as the British pound and euro weakened against the U.S. dollar. This decrease was almost equally offset by a \$5.7 million, or 3.4%, increase in sales related to an acquisition.

Sales of Commercial Valves decreased by \$1.5 million, or 2.0%, to \$75.0 million in 2017, primarily reflecting unfavorable foreign currency translation of \$5.7 million, or 7.4%, as the British pound and Canadian dollar weakened against the U.S. dollar. The unfavorable foreign currency translation was partially offset by an increase in core sales of \$4.2 million, or 5.6%, reflecting better demand in U.K. and Canadian non-residential construction markets.

Sales of Other Products decreased by \$0.5 million, or 2.1%, to \$23.0 million in 2017.

Fluid Handling operating profit decreased by \$3.8 million, or 10.7%, to \$31.6 million in 2017. The decrease was driven by the impact of transaction related expenses and unfavorable mix, partially offset by productivity.

The Fluid Handling segment backlog was \$259 million (which includes \$4.1 million pertaining to the Westlock business acquired in April 2017) as of June 30, 2017, compared with \$228 million as of December 31, 2016 and \$246 million as of June 30, 2016.

Payment & Merchandising Technologies

(dollars in millions)	Second Quarter		Change	
	2017	2016	\$	%
Net sales by product line:				
Payment Acceptance and Dispensing Products	\$148.6	\$132.4	\$16.2	12.2 %
Merchandising Equipment	49.6	60.2	(10.6)	(17.6)%
Total net sales	198.2	192.6	5.6	2.9 %
Operating profit	42.5	34.5	8.0	23.2 %
Transaction related charges*	0.6	—	0.6	NM
Operating margin	21.4 %	17.9 %		

* Transaction related charges are included in operating profit and operating margin.

Payment & Merchandising Technologies sales increased \$5.6 million, or 2.9%, to \$198.2 million in 2017, reflecting a core sales increase of \$13.8 million, or 7.2%, partially offset by unfavorable foreign currency translation of \$5.9 million, or 3.1%, and a net acquisition/divestiture impact of \$2.3 million, or 1.2%.

Sales of Payment Acceptance and Dispensing Products increased \$16.2 million, or 12.2%, to \$148.6 million in 2017, reflecting a core sales increase of \$23.5 million, or 17.8%, partially offset by unfavorable foreign currency translation of \$5.0 million, or 3.8%, and a net acquisition/divestiture impact of \$2.3 million, or 1.7%. The increase in core sales primarily reflects growth in the retail vertical market, however, most other end markets also contributed. Unfavorable foreign currency translation primarily reflected the British pound weakening against the U.S. dollar.

Sales of Merchandising Equipment decreased \$10.6 million, or 17.6%, to \$49.6 million in 2017, reflecting a core sales decrease of \$9.7 million, or 16.1%, and unfavorable foreign currency translation of \$0.9 million, or 1.5%. The decrease in core sales was driven by weaker capital spending by large bottler customers.

Payment & Merchandising Technologies operating profit increased by \$8.0 million, or 23.2%, to \$42.5 million in 2017. The increase was primarily driven by the impact of the higher core sales and productivity, partially offset by unfavorable mix and the transaction related charges.

The Payment & Merchandising Technologies segment backlog was \$87 million (which includes \$0.5 million pertaining to the Microtronic business acquired in June 2017) as of June 30, 2017, compared with \$94 million as of December 31, 2016 and \$66 million as of June 30, 2016.

Aerospace & Electronics

	Second Quarter		Change	
(dollars in millions)	2017	2016	\$	%
Net sales by product line:				
Commercial Original Equipment	\$87.3	\$92.1	\$(4.8)	(5.2)%
Military Original Equipment	40.9	49.0	(8.1)	(16.5)%
Commercial Aftermarket Products	31.6	34.0	(2.4)	(7.1)%
Military Aftermarket Products	11.3	14.1	(2.8)	(19.9)%
Total net sales	171.1	189.2	(18.1)	(9.6)%
Operating profit	38.0	38.6	(0.6)	(1.6)%
Operating margin	22.2%	20.4%		

Aerospace & Electronics sales decreased \$18.1 million, or 9.6%, to \$171.1 million in 2017.

Sales of Commercial Original Equipment decreased by \$4.8 million, or 5.2%, to \$87.3 million in 2017. The decrease was driven primarily by weaker sales of business jet, cabin, and modular power products.

Sales of Military Original Equipment decreased by \$8.1 million, or 16.5%, to \$40.9 million in 2017. The sales decrease reflected the non-repeat of a large military program shipped in 2016.

Sales of Commercial Aftermarket products decreased by \$2.4 million, or 7.1%, to \$31.6 million in 2017. The sales decrease primarily reflected difficult comparisons for Modernization & Upgrade project sales.

Sales of Military Aftermarket products decreased by \$2.8 million, or 19.9%, to \$11.3 million in 2017. The sales decrease primarily reflected difficult comparisons for Modernization & Upgrade project sales.

Aerospace & Electronics operating profit decreased by \$0.6 million, or 1.6%, to \$38.0 million in 2017, driven primarily by the lower volumes, partially offset by productivity and improved mix.

The Aerospace & Electronics segment backlog was \$328 million as of June 30, 2017, compared with \$353 million as of December 31, 2016 and \$436 million as of June 30, 2016.

Engineered Materials

	Second Quarter		Change	
(dollars in millions)	2017	2016	\$	%
Net sales by product line:				
FRP- Recreational Vehicles	\$38.1	\$32.1	\$6.0	18.7%
FRP- Building Products	23.9	22.9	1.0	4.4%
FRP- Transportation	7.4	9.5	(2.1)	(22.1)%
Total net sales	69.4	64.5	4.9	7.6%
Operating profit	13.3	13.5	(0.2)	(1.5)%
Operating margin	19.1%	21.0%		

Engineered Materials sales increased by \$4.9 million, or 7.6%, to \$69.4 million in 2017 resulting from higher sales to RV and building products end markets, partially offset by lower sales to transportation end markets. Higher sales to the RV market primarily reflect market share gains and underlying market growth. Engineered Materials operating profit decreased by \$0.2 million, or 1.5%, to \$13.3 million in 2017.

The Engineered Materials segment backlog was \$15 million as of June 30, 2017, compared with \$16 million as of December 31, 2016 and \$15 million as of June 30, 2016.

Results from Operations – Six Month Periods Ended June 30

The following information should be read in conjunction with our condensed consolidated financial statements and related notes.

(dollars in millions)	Year-to-Date		Change	
	2017	2016	\$	%
Net sales	\$1,375.9	\$1,372.2	3.7	0.3 %
Operating profit	205.6	188.1	17.5	9.3 %
Transaction related charges*	2.6	—	2.6	NM
Operating margin	14.9	% 13.7	%	
Other income (expense):				
Interest income	1.1	1.0	0.1	10.0%
Interest expense	(18.0)	(18.3)	0.3	1.6 %
Miscellaneous, net	(1.0)	(0.6)	(0.4)	66.7%
	(17.9)	(17.9)	—	— %
Income before income taxes	187.7	170.2	17.5	10.3%
Provision for income taxes	55.1	46.6	8.5	18.2%
Net income before allocation to noncontrolling interests	132.6	123.6	9.0	7.3 %
Less: Noncontrolling interest in subsidiaries' earnings	0.3	0.3	—	— %
Net income attributable to common shareholders	\$132.3	\$123.3	\$9.0	7.3 %

* Transaction related charges are included in operating profit and operating margin.

Sales increased by \$3.7 million, or 0.3%, to \$1,375.9 million in 2017. Net sales related to operations outside the United States were 35.8% and 36.4% of total net sales for the six months ended June 30, 2017 and 2016, respectively. The year-over-year change in sales included:

- an increase in core sales of \$28.1 million, or 2.1%;
- an increase related to a net acquisition/divestiture impact of \$1.3 million, or 0.1%; and
- unfavorable foreign currency translation of \$25.7 million, or 1.9%.

Operating profit increased by \$17.5 million, or 9.3%, to \$205.6 million in 2017. The increase in operating profit reflected the higher operating profit in our Payment & Merchandising Technologies and Engineered Materials segments and lower corporate costs, partially offset by lower operating profit in our Fluid Handling segment and Aerospace and Electronics segments. Operating profit in the first six months of 2017 included transaction related charges of \$2.6 million in connection with the acquisitions of Westlock and Microtronic. Operating profit in the first six months of 2016 included a \$5.0 million legal settlement charge.

Our effective tax rate is affected by a number of items, both recurring and discrete, including the amount of income we earn in different jurisdictions and their respective statutory tax rates, acquisitions and dispositions, changes in the valuation of our deferred tax assets and liabilities, changes in tax laws, regulations and accounting principles, the continued availability of statutory tax credits and deductions, the continued reinvestment of our overseas earnings, and examinations initiated by tax authorities around the world.

Our effective tax rate for the three and six months ended June 30, 2017 is higher than the prior year's comparable period primarily due to a higher amount of income earned in jurisdictions with higher statutory tax rates, the favorable resolution of an income tax audit in the second quarter of 2016 and the favorable impact of Japanese tax reform in 2016. These items were partially offset by the favorable effect of share-based compensation.

	Six Months Ended June 30,	
	2017	2016
Net income before allocation to noncontrolling interests	\$132.6	\$123.6
Other comprehensive income (loss), net of tax		
Currency translation adjustment	58.6	16.8
Changes in pension and postretirement plan assets and benefit obligation, net of tax	4.6	3.8
Other comprehensive income (loss), net of tax	63.2	20.6
Comprehensive income before allocation to noncontrolling interests	195.8	144.2
Less: Noncontrolling interests in comprehensive income	0.7	0.3
Comprehensive income attributable to common shareholders	\$195.1	\$143.9

For the six months ended June 30, 2017, comprehensive income before allocations to noncontrolling interests was \$195.8 million compared to \$144.2 million in the same period of 2016. The \$51.6 million increase was primarily driven by a \$41.8 million favorable impact of foreign currency translation adjustments year over year including fluctuations in the British pound, Canadian dollar, euro and Japanese yen.

Segment Results of Operations - Six Month Periods Ended June 30

The following information should be read in conjunction with our condensed consolidated financial statements and related notes.

Fluid Handling

(dollars in millions)	Year-To-Date		Change	
	2017	2016	\$	%
Net sales by product line:				
Process Valves and Related Products	\$314.5	\$321.0	\$(6.5)	(2.0)%
Commercial Valves	144.5	148.9	(4.4)	(3.0)%
Other Products	44.4	44.0	0.4	0.9%
Total net sales	503.4	513.9	(10.5)	(2.0)%
Operating profit	58.7	60.8	(2.1)	(3.5)%
Transaction related charges*	2.0	—	2.0	NM
Operating margin	11.7%	11.8%		

* Transaction related charges are included in operating profit and operating margin.

Fluid Handling sales decreased by \$10.5 million, or 2.0%, to \$503.4 million, driven by unfavorable foreign currency translation of \$13.7 million, or 2.6%, and a decrease in core sales of \$2.5 million, or 0.5%, partially offset by a \$5.7 million, or 1.1%, increase in sales related to an acquisition.

Sales of Process Valves and Related Products decreased by \$6.5 million, or 2.0%, to \$314.5 million in 2017, including a core sales decline of \$8.1 million, or 2.5%, related to refining and general industrial vertical markets and unfavorable foreign currency translation of \$4.1 million, or 1.3%, as the British pound and euro weakened against the U.S. dollar. This increase was partially offset by a \$5.7 million, or 1.8%, increase in sales related to an acquisition. Sales of Commercial Valves decreased by \$4.4 million, or 3.0%, to \$144.5 million in 2017, primarily reflecting unfavorable foreign currency translation of \$9.4 million, or 6.4%, as the British pound weakened against the U.S. dollar. The unfavorable foreign currency translation was partially offset by an increase in core sales of \$5.0 million, or 3.4%, primarily reflecting stronger sales to the U.K. non-residential construction market.

Sales of Other Products increased by \$0.4 million, or 0.9%, to \$44.4 million in 2017.

Fluid Handling operating profit decreased by \$2.1 million, or 3.5%, to \$58.7 million in 2017. The decrease was driven by the impact of transaction related expenses, unfavorable mix and the lower sales volume, partially offset by productivity.

Payment & Merchandising Technologies

(dollars in millions)	Year-To-Date		Change	
	2017	2016	\$	%
Net sales by product line:				
Payment Acceptance and Dispensing Products	\$294.5	\$249.9	\$44.6	17.8 %
Merchandising Equipment	99.2	114.6	(15.4)	(13.4)%
Total net sales	393.7	364.5	29.2	8.0 %
Operating profit	81.6	62.5	19.1	30.6 %
Transaction related charges*	0.6	—	0.6	NM
Restructuring gain*	—	(0.4)	0.4	NM
Operating margin	20.7 %	17.1 %		

* Transaction related charges and the restructuring gain is included in operating profit and operating margin.

Payment & Merchandising Technologies sales increased \$29.2 million, or 8.0%, to \$393.7 million in 2017, reflecting a core sales increase of \$45.4 million, or 12.5%, partially offset by unfavorable foreign currency translation of \$11.8 million, or 3.2%, and a net acquisition/divestiture impact of \$4.4 million, or 1.2%.

Sales of Payment Acceptance and Dispensing Products increased \$44.6 million, or 17.8%, to \$294.5 million in 2017, reflecting a core sales increase of \$58.7 million, or 23.5%, partially offset by unfavorable foreign currency translation of \$9.8 million, or 3.9%, and a net acquisition/divestiture impact of \$4.4 million, or 1.8%. The increase in core sales reflects higher sales to the retail, gaming, financial services, and transportation verticals. Unfavorable foreign currency translation reflected the British pound weakening against the U.S. dollar.

Sales of Merchandising Equipment decreased \$15.4 million, or 13.4%, to \$99.2 million in 2017, reflecting a core sales decrease of \$13.4 million, or 11.6%, and unfavorable foreign currency translation of \$2.0 million, or 1.8%. The decrease in core sales was primarily related to lower sales to our large bottler customers.

Payment & Merchandising Technologies operating profit increased by \$19.1 million, or 30.6%, to \$81.6 million in 2017. The increase was primarily driven by the impact of the higher core sales and productivity, partially offset by unfavorable mix and the transaction related charges.

Aerospace & Electronics

(dollars in millions)	Year-To-Date		Change	
	2017	2016	\$	%
Net sales by product line:				
Commercial Original Equipment	\$169.8	\$182.1	\$(12.3)	(6.8)%
Military Original Equipment	78.9	89.6	(10.7)	(11.9)%
Commercial Aftermarket	63.7	64.4	(0.7)	(1.1)%
Military Aftermarket	22.1	24.8	(2.7)	(10.9)%
Total net sales	334.5	361.0	(26.5)	(7.3)%
Operating profit	70.0	71.7	(1.7)	(2.4)%
Operating margin	20.9 %	19.9 %		

Aerospace & Electronics sales decreased \$26.5 million, or 7.3%, to \$334.5 million in 2017.

Sales of Commercial Original Equipment decreased by \$12.3 million, or 6.8%, to \$169.8 million in 2017. The sales decrease was driven by weaker sales of business jet, cabin, and modular power products.

Sales of Military Original Equipment decreased by \$10.7 million, or 11.9%, to \$78.9 million in 2017. The sales decrease primarily reflected the non-repeat of a large military program shipped in 2016.

Sales of Commercial Aftermarket products decreased by \$0.7 million, or 1.1%, to \$63.7 million in 2017.

Sales of Military Aftermarket decreased by \$2.7 million, or 10.9%, to \$22.1 million in 2017. The sales decrease primarily reflected difficult comparisons for Modernization & Upgrade project sales.

Aerospace & Electronics operating profit decreased by \$1.7 million, or 2.4%, to \$70.0 million in 2017, primarily as a result of the lower volumes, partially offset by productivity and improved mix.

Engineered Materials

(dollars in millions)	Year-To-Date		Change	
	2017	2016	\$	%
Net sales by product line:				
FRP- Recreational Vehicles	\$79.7	\$67.2	\$12.5	18.6 %
FRP- Building Products	48.4	45.4	3.0	6.6 %
FRP- Transportation	16.2	20.2	(4.0)	(19.8)%
Total net sales	144.3	132.8	11.5	8.7 %
Operating profit	27.3	27.2	0.1	0.4 %
Operating margin	18.9 %	20.5 %		

Engineered Materials sales increased by \$11.5 million, or 8.7%, to \$144.3 million in 2017 resulting from higher sales to RV and building products end markets, partially offset by lower sales to transportation end markets. Higher sales to the RV market primarily reflect market share gains and underlying market growth. Engineered Materials operating profit increased by \$0.1 million, or 0.4%, to \$27.3 million in 2017.

Liquidity and Capital Resources

(in millions)	Six Months Ended June 30, 2017 2016	
Net cash provided by (used in):		
Operating activities	\$70.4	\$51.8
Investing activities	(74.9)	(25.9)
Financing activities	(21.5)	15.0
Effect of foreign currency exchange rate changes on cash and cash equivalents	25.6	4.5
(Decrease) increase in cash and cash equivalents	\$(0.4)	\$45.4

Our operating philosophy is to deploy cash provided by operating activities, when appropriate, to provide value to shareholders by reinvesting in existing businesses, by making acquisitions that will complement our portfolio of businesses and by paying dividends and/or repurchasing shares.

Our current cash balance, together with cash we expect to generate from future operations along with the \$500 million available under our Commercial Paper Program (the “CP Program”) or borrowings available under our revolving credit facility, is expected to be sufficient to finance our short- and long-term capital requirements, as well as to fund payments associated with our asbestos and environmental liabilities and expected pension contributions. In addition, we believe our investment grade credit ratings afford us adequate access to public and private debt markets. We have no borrowings outstanding under our CP Program as of June 30, 2017. There are no other significant debt maturities coming due until December 2018.

In the fourth quarter of 2016, we extended our estimate of the 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 the generally accepted end point of such claims in 2059. Our estimate of the asbestos liability for pending and future claims through 2059 is based on the projected future asbestos costs resulting from our experience using a range of reference periods for claims filed, settled and dismissed. Based on this estimate, we recorded a \$227 million additional liability in the fourth quarter of 2016. The aggregate asbestos liability is \$653 million as of June 30, 2017. We continue to monitor trend factors, such as the number and type of claims being filed each year, case management orders and legislation restricting the types of claims that can proceed to trial, significant appellate rulings and developments affecting the post-bankruptcy trusts for asbestos claimants to assess whether a change in the estimate is warranted. On a quarterly basis, we review significant changes to these factors in assessing the adequacy of our asbestos liability. Similarly, we have an estimated liability of \$45.4 million related to environmental remediation costs projected through 2022 related to our Goodyear Site.

As of June 30, 2017, our non-U.S. subsidiaries held approximately \$488 million of cash, which would be subject to additional tax upon repatriation to the U.S. Our current plans do not anticipate that we will need funds generated from our non-U.S. operations to fund our U.S. operations. In the event we were to repatriate the cash balances of our non-U.S. subsidiaries, we would provide for and pay additional U.S. and non-U.S. taxes in connection with such repatriation.

Operating Activities

Cash provided by operating activities was \$70.4 million in the first six months of 2017, compared to \$51.8 million during the same period last year. The increase in cash generated resulted primarily from higher net income and lower environmental payments, partially offset by higher working capital requirements and higher net asbestos-related payments. Net asbestos-related payments in the first six months of 2017 and 2016 were \$28.2 million and \$25.7 million, respectively. We expect to make payments related to asbestos settlement and defense costs, net of related insurance recoveries, of approximately \$55 million, environmental payments of approximately \$13 million and contributions to our defined benefit plans of approximately \$12 million in 2017.

Investing Activities

Cash flows relating to investing activities consist primarily of cash provided by divestitures of businesses or assets and cash used for acquisitions and capital expenditures. Cash used for investing activities was \$74.9 million in the first six months of 2017, compared to \$25.9 million in the comparable period of 2016. The increase in cash used for investing

activities was driven by cash paid of \$58 million for the acquisitions of Westlock and Microtronic during the second quarter of 2017. This was slightly offset by lower capital expenditures year over year. Capital expenditures are made primarily for increasing capacity, replacing equipment, supporting new product development and improving information systems. We expect our capital expenditures to approximate \$50 million in 2017, reflecting continued investments in new product development initiatives, primarily in our Aerospace & Electronics, Payment and Merchandising Technologies and Fluid Handling segments.

Financing Activities

Financing cash flows consist primarily of dividend payments to shareholders, share repurchases, repayments of indebtedness, proceeds from the issuance of commercial paper and proceeds from the issuance of common stock. Cash used for financing activities was \$21.5 million during the first six months of 2017, compared to cash provided by financing activities of \$15.0 million during the first six months of 2016. The higher levels of cash used for financing activities was primarily due to the absence of proceeds received from the issuance of commercial paper, partially offset by higher proceeds from stock options exercised.

Recent Accounting Pronouncements

Information regarding new accounting pronouncements is included in Note 1 to the Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the information called for by this item since the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that are filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that the information is accumulated and communicated to the Company's Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls are effective as of the end of the period covered by this quarterly report.

Changes in Internal Control over Financial Reporting. During the fiscal quarter ended June 30, 2017, there have been no changes in the Company's internal control over financial reporting, identified in connection with our evaluation thereof, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Part II : Other Information

Item 1. Legal Proceedings

Discussion of legal matters is incorporated by reference from Part 1, Item 1, Note 8, "Commitments and Contingencies", of this Quarterly Report on Form 10-Q, and should be considered an integral part of Part II, Item 1, "Legal Proceedings".

Item 1A. Risk Factors

Information regarding risk factors appears in Item 1A of Crane Co.'s Annual Report on Form 10-K for the year ended December 31, 2016. There were no material changes during the quarter ended June 30, 2017 to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) Share Repurchases

We did not make any open-market share repurchases of our common stock during the quarter ended June 30, 2017. We routinely receive shares of our common stock as payment for stock option exercises and the withholding taxes due on stock option exercises and the vesting of restricted stock awards from stock-based compensation program participants.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

- Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a)
- Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a)
- Exhibit 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or 15d-14(b)
- Exhibit 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or 15d-14(b)
- Exhibit 101.INS XBRL Instance Document
- Exhibit 101.SCH XBRL Taxonomy Extension Schema Document
- Exhibit 101.CAL XBRL Taxonomy Calculation Linkbase Document
- Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- Exhibit 101.LAB XBRL Taxonomy Label Linkbase Document
- Exhibit 101.PRE XBRL Taxonomy Presentation Linkbase Document

Notes to Exhibits List:

Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016, respectively; (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016, respectively; (iii) the Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016; and (iv) the Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2017 and 2016, respectively and v) Notes to Condensed Consolidated Financial Statements. Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CRANE CO.
REGISTRANT

Date

August 2, 2017 By/s/ Max H. Mitchell

Max H. Mitchell

President and Chief Executive Officer

Date

By/s/ Richard A. Maue

August 2, 2017 Richard A. Maue

Vice President, Finance and

Chief Financial Officer

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Exhibit Index

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