BLACKBAUD INC
Form DEF 14A
April 30, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement.

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**

x Definitive Proxy Statement.

¨ Definitive Additional Materials.

¨ Soliciting Material Pursuant to §240.14a-12.

BLACKBAUD, INC.

(Name of Registrant as Specified in its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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2000 Daniel Island Drive

Charleston, South Carolina 29492

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 23, 2010

To the Stockholders:

You are cordially invited to attend our 2010 Annual Meeting of Stockholders to be held on Wednesday, June 23, 2010 at 10:00 a.m. Eastern Time at our corporate headquarters located at 2000 Daniel Island Drive, Charleston, South Carolina for the following purposes:

1. To elect two Class C directors for a three-year term expiring in 2013;

2. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010; and

3. To transact such other business as may properly come before the meeting or any adjournment thereof.

These matters are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on April 26, 2010 as the record date for the determination of stockholders entitled to notice of and to vote at the meeting or any adjournment thereof. A list of stockholders eligible to vote at the meeting will be available during our regular business hours at our principal office in Charleston, South Carolina for the ten days prior to the meeting for review for any purposes related to the meeting.

We are pleased to take advantage of the Securities and Exchange Commission rules that allow us to furnish proxy materials, including this Notice, the Proxy Statement (including an electronic Proxy Card for the meeting) and our 2009 Annual Report to Stockholders via the Internet. Taking advantage of these rules should allow us to lower the cost of delivering annual meeting materials to our stockholders and reduce the environmental impact of printing and mailing these materials.

Our stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to vote by proxy by following the instructions contained in the accompanying Proxy Statement. You may revoke your proxy in the manner described in the Proxy Statement at any time before it has been voted at the meeting. Any stockholder attending the meeting may vote in person even if he or she has returned a proxy. **Your vote is important**. **Whether or not you plan to attend the Annual Meeting of Stockholders we hope that you will vote as soon as possible.**

For the Board of Directors,

BLACKBAUD, INC.

Jon W. Olson,

Vice President, General Counsel and Secretary

Charleston, South Carolina

Dated: April 30, 2010

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BLACKBAUD, INC.

Proxy Statement

for the

Annual Meeting of Stockholders

To Be Held June 23, 2010

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BLACKBAUD, INC.

PROXY STATEMENT

2010 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 23, 2010

Information Concerning Solicitation and Voting

We are furnishing this Proxy Statement to the holders of our common stock in connection with the solicitation of proxies on behalf of our Board of Directors for use at the Annual Meeting of Stockholders to be held on Wednesday, June 23, 2010 at 10:00 a.m., Eastern Time, at our headquarters located at 2000 Daniel Island Drive, Charleston, South Carolina, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. Only stockholders of record at the close of business on April 26, 2010 are entitled to notice of and to vote at the meeting.

In accordance with the Securities and Exchange Commission, or SEC, rules, instead of mailing a printed copy of our proxy materials to each stockholder of record, we are now furnishing proxy materials, including the Notice, this Proxy Statement, our 2009 Annual Report to Stockholders, including financial statements, and a Proxy Card for the meeting, by providing access to them on the Internet. These materials were first available on the Internet on April 30, 2010. We mailed a Notice of Internet Availability of Proxy Materials on or about April 30, 2010 to our stockholders of record and beneficial owners as of April 26, 2010, the record date for the meeting. This Proxy Statement and the Notice of Internet Availability of Proxy Materials contain instructions for accessing and reviewing our proxy materials on the Internet and for voting by proxy over the Internet. If you prefer to receive printed copies of our proxy materials, the Notice of Internet Availability of Proxy Materials contains instructions on how to request such materials by mail. You will not receive printed copies of the proxy materials unless you request them. If you elect to receive the materials by mail, you may also vote by proxy on the Proxy Card or Voter Instruction Card that you will receive in response to your request. Viewing our proxy materials and voting by proxy electronically will save us the cost of printing and mailing documents to you and will reduce the impact on the environment.

Each holder of common stock is entitled to one vote for each share held as of the record date with respect to all matters that may be considered at the meeting. Stockholders votes will be tabulated by persons appointed by our Board of Directors to act as inspectors of election for the meeting.

We will bear the expense of soliciting proxies. You will need to obtain your own Internet access if you choose to access the proxy materials and/or vote over the Internet. We might reimburse banks, brokerage firms and other custodians, nominees and fiduciaries representing beneficial owners of our common stock, for their expenses in forwarding soliciting materials to those beneficial owners. Proxies may also be solicited by our directors, officers or employees, personally or by telephone, telegram, facsimile or other means of communication. We do not intend to pay additional compensation for doing so.

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Questions and Answers about the 2010 Annual Meeting of Stockholders

Q: Who may vote at the meeting?

A: Our Board of Directors set April 26, 2010 as the record date for the meeting. If you owned our common stock at the close of business on April 26, 2010, you may attend and vote at the meeting. Each stockholder is entitled to one vote for each share of common stock held on all matters to be voted on. As of April 26, 2010, there were 44,811,086 shares of our common stock outstanding and entitled to vote at the meeting.

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: If your shares are registered directly in your name with our transfer agent, American Stock Transfer and Trust Company, you are considered, with respect to those shares, the stockholder of record. As the stockholder of record, you have the right to vote in person at the meeting. You will need to present a form of personal photo identification in order to be admitted to the 2010 annual meeting.

If your shares are held in a brokerage account or by another nominee or trustee, you are considered the beneficial owner of shares held in street name. In that case, the Notice of Internet Availability or proxy materials have been forwarded to you by your broker, bank or other holder of record who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote your shares by using the voting instructions included in the Notice of Internet Availability or proxy materials.

Q: What is the quorum requirement for the meeting?

A: A majority of our outstanding shares as of the record date must be present at the 2010 annual meeting in order to hold the meeting and conduct business. This is called a quorum. Your shares will be counted as present at the meeting if you:

- are present and entitled to vote in person at the meeting; or
- have voted by telephone, by Internet, or properly submitted a Proxy Card or Voter Instruction Card.

If you are present in person or by proxy, but abstain from voting on any or all proposals, your shares are still counted as present and entitled to vote. Each proposal listed in the Proxy Statement identifies the votes needed to approve or ratify the proposed action.

Q: What proposals will be voted on at the meeting?

A: The two proposals to be voted on at the 2010 annual meeting are as follows:

1. To elect two Class C directors for a three-year term expiring in 2013; and

2. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010.

We will also consider any other business that properly comes before the meeting. As of the record date, we are not aware of any other matters to be submitted for consideration at the meeting. If any other matters are properly brought before the meeting, the persons named in the Proxy Card or Voter Instruction Card will vote the shares they represent using their best judgment.

Q: How may I vote my shares in person at the meeting?

A: If you are a stockholder of record, you have the right to vote in person at the 2010 annual meeting. You will need to present a form of personal photo identification in order to be admitted to the meeting. If you are a beneficial owner of shares held in street name, you are also invited to attend the meeting. Because a beneficial owner is not the stockholder of record, however, you may not vote these shares in person at the meeting unless you obtain a legal proxy from your broker, bank, nominee, or trustee that holds your shares, giving you the right to vote the shares at the meeting.

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Q: How can I vote my shares without attending the meeting?

A: If your common stock is held by a broker, bank or other nominee, they should send you instructions that you must follow in order to have your shares voted. If you hold shares in your own name, you may vote by proxy in any one of the following ways:

- via the Internet by accessing the proxy materials on the secured website **http://www.amstock.com/ProxyServices/ViewMaterial.asp?CoNumber=25567** and following the voting instructions on that website;

- via telephone by calling toll free 1-800-PROXIES (1-800-776-9437) in the United States or 1-718-921-8500 outside the United States and following the recorded instructions; or

- request printed copies of the proxy materials be mailed to you pursuant to the instructions provided in the Notice of Internet Availability of Proxy Materials and complete, date, sign and return the Proxy Card that you receive in response to your request.

The Internet and telephone voting procedures are designed to authenticate stockholders identities by use of a control number to allow stockholders to vote their shares and to confirm that stockholders instructions have been properly recorded. Voting via the Internet or telephone must be completed by 11:59 p.m., Eastern Time, on June 22, 2010. Of course, you can always come to the meeting and vote your shares in person. If you submit or return a Proxy Card without giving specific voting instructions, your shares will be voted as recommended by our Board of Directors.

Q: How can I change my vote after submitting it?

A: If you are a stockholder of record, you can revoke your proxy before your shares are voted at the meeting by:

- Filing a written notice of revocation bearing a later date than the proxy with our Corporate Secretary at 2000 Daniel Island Drive, Charleston, South Carolina 29492 at or before the taking of the vote at the meeting;

- Duly executing a later-dated proxy relating to the same shares and delivering it to our Corporate Secretary at 2000 Daniel Island Drive, Charleston, South Carolina 29492 at or before the taking of the vote at the meeting; or

- Attending the meeting and voting in person (although attendance at the meeting will not in and of itself constitute a revocation of a proxy).

If you are a beneficial owner of shares held in street name, you may submit new voting instructions by contacting your bank, broker, nominee or trustee. You may also vote in person at the meeting if you obtain a legal proxy from them as described in the answer to a previous question.

Q: Where can I find the voting results of the meeting?

A: The preliminary voting results will be announced at the 2010 annual meeting. The final results will be published in a Form 8-K filed with the SEC within four business days of the meeting.

Q: For how long can I access the proxy materials on the Internet?

A: The Notice, Proxy Statement, Proxy Card, 2009 Annual Report to Stockholders and Annual Report on Form 10-K for the year ended December 31, 2009 are also available in PDF and HTML format at **http://proxy.blackbaud.com** and will remain posted on this website at least until the conclusion of the meeting.

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PROPOSAL ONE

ELECTION OF DIRECTORS

Nominees

Our Board of Directors consists of six members and is divided into three classes, the members of which each serve for a staggered three-year term. The term of office of one class of directors expires each year in rotation so that one class is elected at each annual meeting for a full three-year term. Our Class C directors, Marc E. Chardon and John P. McConnell, have been nominated to fill a three-year term expiring in 2013. The two other classes of directors, who were elected or appointed for terms expiring at the annual meetings in 2011 and 2012, respectively, will remain in office.

If you are a stockholder of record, unless you mark your Proxy Card to withhold authority to vote, the proxy holders will vote the proxies received by them for the two Class C nominees named below, each of whom is currently a director and each of whom has consented to be named in this Proxy Statement and to serve if elected. In the event that any nominee is unable or declines to serve as a director at the time of the meeting, your proxy will be voted for any nominee designated by our Board of Directors to fill the vacancy. We do not expect that any nominee will be unable or will decline to serve as a director.

If you are a beneficial owner of shares held in street name and you do not provide your broker with voting instructions, under recent amendments to the rules governing brokers, your broker may not vote your shares on the election of directors. Therefore, it is important that you vote.

The Board of Directors unanimously recommends that stockholders vote FOR the two Class C nominees listed below.

The name of and certain information regarding each Class C nominee as of April 26, 2010 is set forth below, together with information regarding our directors remaining in office. This information is based on data furnished to us by the nominees and directors. There are no family relationships among our directors, director nominees or executive officers. The business address for each nominee for matters regarding Blackbaud is 2000 Daniel Island Drive, Charleston, South Carolina 29492.

Name	Director Since	Age	Position(s) With Blackbaud
	Class C Directors For Terms Expiring in 2013		
Marc E. Chardon	November 2005	54	President, Chief Executive Officer and Director
John P. McConnell	March 2006	59	Director
	Class A Directors with Terms Expiring in 2011		
Timothy Chou	June 2007	55	Director
Carolyn Miles	March 2007	48	Director
	Class B Nominees for a Term Expiring in 2012		
George H. Ellis	March 2006	61	Director
Andrew M. Leitch	February 2004	66	Chairman of the Board of Directors

Class C Director Nominees

Marc E. Chardon has served as our President, Chief Executive Officer and a member of our Board of Directors since November 2005. Previously, Mr. Chardon served as Chief Financial Officer for the $11 billion Information Worker business group at Microsoft Corporation, where he was responsible for the core functions of long-term strategic financial planning and business performance management. He joined Microsoft in August 1998 as General Manager of Microsoft France. Prior to joining Microsoft, Mr. Chardon was General Manager of Digital France. He joined Digital in 1984 and held a variety of international marketing and business roles within the company. In 1994, Mr. Chardon was named Director, Office of the President, with responsibility for Digital s

corporate strategy development. Mr. Chardon is an American/French dual national. He is an economics honors graduate from Harvard College. Among other experience, qualifications, attributes and skills, as our President and Chief Executive Officer since November 2005, Mr. Chardon s unique experience and perspective on our business led to the conclusion of our Nominating and Corporate Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

John P. McConnell joined our Board of Directors in March 2006. Mr. McConnell has been the President and Chief Executive Officer of McConnell Golf LLC, a private company, since November 2006. Mr. McConnell served as the President and Chief Executive Officer of A4 Health Systems, Inc., a private company, from December 1998 until its sale in March 2006 to Allscripts Healthcare Solutions, Inc., now known as Allscripts-Misys Healthcare Solutions, Inc. Mr. McConnell sat on the board of directors of Allscripts from March 2006 until March 2008. He co-founded Medic Computer Systems, Inc. in 1982 and served as its Chief Executive Officer until its sale to Misys plc in 1997. Mr. McConnell also has served on the board of directors of several private entities including MED3000, Inc. since June 1996, RxMedic since January 2007 and the Green Spring Foundation since January 2000. He holds a BS in finance from Virginia Tech. Among other experience, qualifications, attributes and skills, Mr. McConnell s knowledge and experience in the information technology industry and strategic transactions led to the conclusion of our Nominating and Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

Other Directors Not Up for Re-election at this Meeting

Timothy Chou has served on our Board of Directors since June 2007. Mr. Chou co-founded Openwater Networks, a private company, in November 2005 and has served on its board of directors since that time. From November 1999 until January 2005, he served as President of Oracle On Demand, a division of Oracle Corporation. Prior to that, Mr. Chou served as Chief Operating Officer of Reasoning, Inc., an information technology services firm, and as Vice President, Server Products, of Oracle Corporation. He has also served as a director of Embarcadero Technologies, Inc. since 2000. Mr. Chou is the author of The End of Software and is a lecturer at Stanford University. Mr. Chou holds a BS in Electrical Engineering from North Carolina State University and MS and PhD degrees in Electrical Engineering from the University of Illinois Urbana-Champaign. Among other experience, qualifications, attributes and skills, Mr. Chou s knowledge and experience in the software-as-a-service industry and in senior leadership roles in large organizations in the information technology industry led to the conclusion of our Nominating and Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

George H. Ellis joined our Board of Directors in March 2006. Mr. Ellis has been Chief Financial Officer of Global 360, Inc., a private company, since July 2006. He has also served in several capacities at Softbrands, Inc., as a member of its board of directors from October 2001 to August 2009, serving as Chairman from October 2001 to June 2006, and Chief Executive Officer from October 2001 to January 2006. Mr. Ellis was also the Chairman and Chief Executive Officer of AremisSoft Corporation from October 2001 to confirmation of its plan of reorganization under Chapter 11 of the Federal Bankruptcy Code in August 2002. Mr. Ellis, who served as a director of AremisSoft from April 1999 until February 2001, accepted the position at AremisSoft to assist in the reorganization. Mr. Ellis served on the board of directors of NEON Systems, Inc. from January 2000 to December 2005 and PeopleSupport, Inc. from October 2004 to October 2008. Mr. Ellis has served on the board of directors and advisory boards of several nonprofit companies in the Dallas area. Mr. Ellis is a licensed CPA and an attorney in the State of Texas. Mr. Ellis holds a BS in accounting from Texas Tech University and a JD from Southern Methodist University. Among other experience, qualifications, attributes and skills, Mr. Ellis knowledge and experience in leading large organizations in the information technology industry and his experience with nonprofit companies led to the conclusion of our Nominating and Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

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Andrew M. Leitch was appointed to our Board of Directors in February 2004 and has served as our Chairman since July 2009. Mr. Leitch was with Deloitte & Touche LLP for over 27 years, most recently serving as the Vice Chairman of the Management Committee, Hong Kong from September 1997 to March 2000. In the past five years, Mr. Leitch has served on the board of directors of the following public companies: STR Holdings, Inc. (since November 2009); Cardium Therapeutics, Inc. (since August 2007); Aldila, Inc. (from May 2004 to February 2010); and Wireless Facilities Inc., now Kratos Defense & Security Solutions, Inc. (from April 2005 to March 2006). Mr. Leitch also serves as director of several private companies. He is a CPA in the State of New York and a Chartered Accountant in Ontario, Canada. Among other experience, qualifications, attributes and skills, Mr. Leitch s experience in auditing and accounting, as well as on boards of directors and management skills led to the conclusion of our Nominating and Governance Committee and of our full Board that he should serve as a director of our Company in light of our business and structure.

Carolyn Miles has served on our Board of Directors since March 2007. Ms. Miles has been Executive Vice President and Chief Operating Officer of Save the Children Federation, Inc., a nonprofit organization, since 2004 and has served in various capacities since joining Save the Children Federation in 1998. Prior to joining Save the Children Federation, Ms. Miles worked with American Express Travel-Related Services in New York and Hong Kong and managed a start-up retail operation in Hong Kong. Ms. Miles serves as a trustee of the University of Virginia s Darden School of Business board. She holds an MBA from the Darden School of Business and a BS from Bucknell University. Among other experience, qualifications, attributes and skills, Ms. Miles experience with nonprofit companies led to the conclusion of our Nominating and Governance Committee and of our full Board that she should serve as a director of our Company in light of our business and structure.

Required Vote

The two nominees receiving the highest number of affirmative votes of the common stock present or represented and entitled to be voted for them shall be elected as Class C directors. In accordance with Delaware law, abstentions or votes withheld from any director are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but they have no legal effect on the election of directors under Delaware law. While broker non-votes will be counted for purposes of determining the presence or absence of a quorum, they will not be counted for purposes of determining the number of shares represented and voting with respect to the particular proposal on which the broker has expressly not voted and, accordingly, will not affect the election of directors.

CORPORATE GOVERNANCE MATTERS

Information about the Board

Our Board of Directors is currently comprised of six members including Chairman Andrew M. Leitch, Marc E. Chardon, Timothy Chou, George H. Ellis, John P. McConnell and Carolyn Miles. Marco W. Hellman resigned as a member of our Board effective December 31, 2009.

We have historically separated the position of Chairman, currently independent director Andrew M. Leitch, and that of Chief Executive Officer, currently Marc E. Chardon. While the Board believes the separation of these positions has served the Company well, and intends to maintain this separation where appropriate and practicable, the Board does not believe that it is appropriate to prohibit one person from serving as both Chairman and Chief Executive Officer. We believe our leadership structure is appropriate given the size of our Company in terms of number of employees, Mr. Leitch s experience in boards of directors and management skills and Mr. Chardon s historical experience and understanding of our Company and industry.

Independence of Directors

Our Board of Directors has adopted categorical standards or guidelines to assist it in making independence determinations with respect to each director. These standards are published in Section 1 of our Corporate Governance Guidelines and are available under *Corporate Governance* in the *Company Investor Relations* section of our website at **www.blackbaud.com**. Our Board has determined that the following five directors are independent within the meaning of the Rule 5605(a)(2) of the Nasdaq Stock Market listing rules: Ms. Miles and Messrs. Chou, Ellis, Leitch and McConnell. As part of such determination of independence, our Board has affirmatively determined that none of these five directors have a relationship with us that would interfere with the exercise of independent judgment in carrying out their responsibilities as directors. Mr. Chardon, our President and Chief Executive Officer, is the only member of management serving as a director.

Ms. Miles is the Executive Vice President and Chief Operating Officer of Save the Children Federation, a nonprofit organization. Save the Children Federation is a customer of ours and paid us approximately $1,031,112 and $935,996 for software and services in 2008 and 2009, respectively, pursuant to standard customer agreements. Our Board of Directors carefully considered this relationship and determined that it did not interfere with the exercise of Ms. Miles independent judgment in carrying out the responsibilities of a director.

Selection of Nominees for our Board of Directors

The Nominating and Corporate Governance Committee of our Board of Directors has the responsibility for establishing the criteria for recommending which directors should stand for re-election to our Board and the selection of new directors to serve on our Board. In addition, the Committee is responsible for establishing the procedures for our stockholders to nominate candidates to our Board. The Committee has not formulated any specific minimum qualifications for director candidates, but has determined certain desirable characteristics including strength of character, mature judgment, career specialization, relevant technical skills and independence. While it does not have a specific written policy with regard to the consideration of diversity in identifying director nominees, the Committee does consider diversity to be an additional desirable characteristic in potential nominees. This commitment to diversity is part of our Corporate Governance Guidelines, which are available under *Corporate Governance* in the *Company Investor Relations* section of our website at **www.blackbaud.com**.

Our Bylaws permit any stockholder of record to nominate directors. Stockholders wishing to nominate a director, whether by inclusion of such business in our proxy materials or otherwise, must deliver written notice of the nomination by registered mail, return receipt requested, to the Corporate Secretary at our principal executive offices not more than 75 and not less than 45 days before the meeting at which directors are to be elected. Any

such notice must set forth the following: (a) the name, age, business address, residence and ownership of our stock of any director nominee and all information relating to the director nominee that is required to be disclosed in solicitations of proxies for elections of directors; (b) any material interest in the director nomination of such stockholder or any Stockholder Associated Person (as defined below), individually or in the aggregate; (c) as to the stockholder or any Stockholder Associated Person, their holdings of our stock and whether the stockholder has entered into transactions to manage risk with respect to such stock; (d) as to the stockholder giving notice and Stockholder Associated Person, the name and address of such stockholder, as they appear on our stock ledger, and current name and address, if different, and of such Stockholder Associated Person; and (e) to the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election as a director. Our Bylaws define Stockholder Associated Person as (a) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (b) any beneficial owner of our shares of stock owned of record or beneficially by such stockholder and (c) any person controlling, controlled by or under common control with such Stockholder Associated Person. The Nominating and Corporate Governance Committee will evaluate a nominee recommended by a stockholder in the same manner in which the Committee evaluates nominees recommended by other persons as well as its own nominee recommendations.

Board Committees

Our Board of Directors has an Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. Each committee is comprised entirely of independent directors in accordance with Rule 5605(a)(2) of the Nasdaq Stock Market listing rules, the Sarbanes-Oxley Act and Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, or Exchange Act.

Our Audit Committee currently comprises Chairman George H. Ellis, Andrew M. Leitch and Carolyn Miles. Our Board of Directors has determined that Mr. Leitch is an audit committee financial expert as such term is defined in Item 407(d) of Regulation S-K promulgated by the SEC. The Audit Committee monitors the integrity of our financial statements, the performance of our internal audit function, the qualifications and independence of our independent registered public accounting firm, the procedures undertaken by the independent registered public accounting firm, and, with the assistance of quarterly reports from its General Counsel and Controller, our compliance with other regulatory and legal requirements. The Audit Committee has the sole authority to appoint, determine funding for, and oversee our independent registered public accounting firm, including pre-approving all auditing services and non-audit services. Its role also includes meeting to review our annual audited financial statements and quarterly financial statements with management and our independent registered public accounting firm and reviewing capital management. It reviews and evaluates public disclosures related to earnings and guidance or other public disclosure matters as appropriate. See Audit Committee Report contained in this Proxy Statement.

Our Compensation Committee currently comprises Chairman John P. McConnell, Timothy Chou and Andrew M. Leitch. The Compensation Committee reviews and approves annually all compensation decisions relating to officers, including those for the Chief Executive Officer and the other executive officers named in the Summary Compensation Table. In addition to reviewing executive officer compensation against that of their contemporaries in our peer group, the Compensation Committee considers recommendations from the Chief Executive Officer regarding compensation for those executives reporting directly to him as well as other officers. The Compensation Committee also annually reviews and approves the compensation of our directors, based on appropriate factors as it determines. The Compensation Committee assesses issues relating to recruitment and retention. Finally, the Compensation Committee has authority to obtain, at our expense, the advice and assistance from internal or external advisors, experts and others to assist the committee. See Compensation Discussion and Analysis contained in this Proxy Statement.

Our Nominating and Corporate Governance Committee currently comprises Chairman Carolyn Miles, George H. Ellis and John P. McConnell. The Nominating and Corporate Governance Committee identifies individuals qualified to become Board members, reviews the qualifications and independence of the members of

the Board and its various committees, recommends to the Board the Corporate Governance Guidelines, oversees such Guidelines to ensure compliance with sound corporate governance practices and legal, regulatory and Nasdaq requirements, leads the Board in its annual self-evaluation process and reviews the Company s governance scores and ratings from third parties including RiskMetrics Group, Inc.

Each of the above-referenced committees operates pursuant to a formal written charter. The charters for each committee, which have been adopted by our Board of Directors, contain a detailed description of the respective committee s duties and responsibilities and are available under *Corporate Governance* in the *Company Investor Relations* section of our website at **www.blackbaud.com**.

In addition to the meetings held by the above-referenced committees, the independent non-employee members of our Board of Directors regularly meet in executive session without our Chief Executive Officer or any executive officers present to evaluate the performance of management.

Risk Oversight

While our Company s senior management has responsibility for the management of risk, our Board of Directors plays a significant role in overseeing this function. Our Board regularly reviews our Company s market and business risks during its meetings and each of its committees oversees risks associated with its respective area of responsibility. In particular, the Audit Committee oversees risk related to our accounting, tax, financial and legal reporting processes. It also assesses risks associated with our financial assets. The Compensation Committee oversees risks related to our compensation and benefit plans and policies to ensure sound pay practices that do not cause risks to arise that are reasonably likely to have a material adverse effect on our Company. The Nominating and Corporate Governance Committee seeks to minimize risks related to governance structure by implementing sound corporate governance principles and practices. Each of the committees regularly reports to the full Board as appropriate on its efforts at risk oversight and on any matter that rises to the level of a material or enterprise level of risk.

Information Regarding Meetings of the Board and Committees

During 2009, our Board of Directors held seven meetings and its three committees, the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, collectively held 28 meetings. No director attended fewer than 75% of the aggregate of all meetings of our Board and the committees on which he or she served during 2009. The table below provides 2009 membership and meeting information for each committee of the Board.

Name	**Audit**	**Compensation**	**Nominating and Corporate Governance**
Andrew M. Leitch	Chair(1)	X(1)	
Marc E. Chardon			
Timothy Chou		X	
George H. Ellis	Chair(2)		Chair(2)
Marco W. Hellman	X(3)	Chair(3)	X(3)
John P. McConnell		Chair(4)	X(4)
Carolyn Miles	X(5)		Chair(5)
Number of Meetings held in 2009	12	6	10

(1) Mr. Leitch served as Chair of the Audit Committee through July 1, 2009 and remains a member of this committee. He joined the Compensation Committee on July 1, 2009.

(2) Prior to being appointed as Chair of the Audit Committee on July 1, 2009, Mr. Ellis served as a member of this committee. Mr. Ellis served as Chair of the Nominating and Corporate Governance Committee through July 1, 2009 and remains a member of this committee.

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(3) Mr. Hellman served as a member of the Audit Committee and Nominating and Corporate Governance Committee and Chair of the Compensation Committee through July 1, 2009. He resigned from the Board effective December 31, 2009.

(4) Prior to being appointed as Chair of the Compensation Committee on July 1, 2009, Mr. McConnell served as a member of this committee. Mr. McConnell joined the Nominating and Corporate Governance Committee on July 1, 2009.

(5) Ms. Miles joined the Audit Committee on July 1, 2009. Prior to being appointed as Chair of the Nominating and Corporate Governance Committee on July 1, 2009, Ms. Miles served as a member of this committee.

Although we do not have a formal written policy with respect to Board of Directors members attendance at our annual meetings of stockholders, we strongly encourage all directors to attend. All directors attended our 2009 annual meeting.

Corporate Governance Guidelines

We believe in sound corporate governance practices and have adopted formal Corporate Governance Guidelines to enhance our effectiveness. Our Board of Directors adopted these Corporate Governance Guidelines in order to ensure that it has the necessary authority and practices in place to review and evaluate our business operations as needed and to make decisions that are independent of our management. The Corporate Governance Guidelines are also intended to align the interests of directors and management with those of our stockholders. The Corporate Governance Guidelines set forth the practices our Board follows, including, but not limited to, Board and Committee composition and selection, director responsibilities, director access to officers and employees and Chief Executive Officer performance evaluation and succession planning. A copy of our Corporate Governance Guidelines is available under *Corporate Governance* in the *Company Investor Relations* section of our website at **www.blackbaud.com**.

Code of Business Conduct and Ethics and Code of Ethics

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to all of our directors and employees. Our Board has also adopted a separate Code of Ethics for our Chief Executive Officer and all senior financial officers, including our Chief Financial Officer and the principal accounting officer or controller, or persons performing similar functions. We will provide copies of our Code of Business Conduct and Ethics and Code of Ethics without charge upon request. To obtain a copy of our Code of Business Conduct and Ethics or Code of Ethics, please send your written request to Blackbaud, Inc., 2000 Daniel Island Drive, Charleston, South Carolina 29492, Attn: General Counsel. Our Code of Business Conduct and Ethics and Code of Ethics are also available under *Corporate Governance* in the *Company Investor Relations* section of our website at **www.blackbaud.com**.

Communications with our Board of Directors

Stockholders who wish to communicate with members of our Board of Directors, including the independent directors individually or as a group, may send correspondence to them in care of our Corporate Secretary at our principal executive offices. Such communication will be forwarded to the intended recipient(s). We currently do not intend to have our Corporate Secretary screen this correspondence, but we may change this policy if directed by our Board due to the nature or volume of the correspondence.

PROPOSAL TWO

RATIFICATION OF APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of our Board of Directors has selected the independent registered public accounting firm of PricewaterhouseCoopers LLP, or PwC, to audit our consolidated financial statements for the fiscal year ending December 31, 2010 and recommends that stockholders vote for ratification of such appointment. Although ratification is not required by our Bylaws or otherwise, the Board is submitting the selection of PwC to our stockholders for ratification because we value our stockholders views on our independent registered public accounting firm and as a matter of good corporate practice. In the event of a negative vote on ratification, the Audit Committee will reconsider, but might not change, its selection. Notwithstanding the selection and ratification, the Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time, if it believes doing so would be in the best interests of our Company and our stockholders.

PwC has audited our financial statements annually since 2000. Representatives of PwC are expected to be present at the 2010 annual meeting with the opportunity to make a statement if they desire to do so and respond to appropriate questions.

Vote Required

Approval of the ratification of the appointment of PwC as our independent registered public accounting firm requires the affirmative vote of the holders of at least a majority of the outstanding shares of our common stock entitled to vote and present or represented at the meeting. In accordance with Delaware law, abstentions will be counted for purposes of determining both whether a quorum is present at the meeting and the total number of shares represented and voting on this proposal. While broker non-votes will be counted for purposes of determining the presence or absence of a quorum, broker non-votes will not be counted for purposes of determining the number of shares represented and voting with respect to the particular proposal on which the broker has expressly not voted and, accordingly, will not affect the approval of this proposal.

The Board of Directors unanimously recommends that stockholders vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010.

AUDIT COMMITTEE REPORT

Our Audit Committee has (1) reviewed and discussed with management the audited financial statements for the year ended December 31, 2009, (2) discussed with PwC, our independent registered public accounting firm, the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1 AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, and (3) received the written disclosures and the letter from PwC concerning applicable requirements of the Public Company Accounting Oversight Board regarding PwC s communications with the Audit Committee concerning independence, and has discussed with PwC its independence. Based upon these discussions and reviews, the Audit Committee recommended to our Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 which is filed with the SEC.

Our Audit Committee is currently composed of the following three directors, all of whom are independent directors as defined in Rule 5605(a)(2) of the Nasdaq Stock Market listing rules and Section 10A(m)(3) of the Exchange Act: Chairman George H. Ellis; Andrew M. Leitch; and Carolyn Miles. Our Board has determined that Mr. Leitch is an audit committee financial expert as such term is defined in Item 407(d) of Regulation S-K promulgated by the SEC. Our Audit Committee operates under a written charter adopted by our Board of Directors, a copy of which is available under *Corporate Governance* in the *Company Investor Relations* section of our website at **www.blackbaud.com**.

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PwC has served as our independent registered public accounting firm since 2000 and audited our consolidated financial statements for the years ended December 31, 2000 through December 31, 2009.

Summary of Fees

The Audit Committee has adopted a policy for the pre-approval of all audit and permitted non-audit services that may be performed by our independent registered public accounting firm. Under this policy, each year, at the time it engages an independent registered public accounting firm, the Audit Committee pre-approves the audit engagement terms and fees and may also pre-approve detailed types of audit-related and permitted tax services, subject to certain dollar limits, to be performed during the year. All other permitted non-audit services are required to be pre-approved by the Audit Committee on an engagement-by-engagement basis.

The following table summarizes the aggregate fees billed for professional services rendered to us by PwC in 2008 and 2009. A description of these various fees and services follows the table.

	2008	2009
Audit Fees	$ 950,368	$ 835,449
Audit-related Fees	101,902	
Tax Fees		10,000
All Other Fees		1,620
Total	$ 1,052,270	$ 847,069

Audit Fees

The aggregate fees billed to us by PwC in connection with the annual audit of our financial statements, for the reviews of our financial statements included in the Quarterly Reports on Form 10-Q, the audit of our internal control over financial reporting and for other services normally provided in connection with statutory and regulatory filings, were $950,368 and $835,449 for the years ended December 31, 2008 and 2009, respectively.

Audit-Related Fees

The aggregate audit-related fees billed to us by PwC for the year ended December 31, 2008 was $101,902, primarily related to due diligence procedures in connection with our acquisition of Kintera, Inc.

Tax Fees

There were no tax fees billed to us by PwC for the year ended December 31, 2008. The tax fees billed to us by PwC in 2009 were $10,000, primarily related to advice on state tax planning opportunities.

All Other Fees

We did not engage PwC for any services other than those listed above during 2008. The other fees billed to us by PwC in 2009 were $1,620, related to our subscription to PwC s on-line technical accounting research software.

Our Audit Committee has considered whether and determined that the provision of the non-audit services rendered to us during 2008 and 2009 was compatible with maintaining the independence of PwC.

THE AUDIT COMMITTEE OF THE

BOARD OF DIRECTORS

George H. Ellis, Chairman

Andrew M. Leitch

Carolyn Miles

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock as of April 26, 2010, unless otherwise noted below, for the following:

- each person or entity known to own beneficially more than 5% of the outstanding common stock as of the date indicated in the corresponding footnote;
- each director;
- each of the named executive officers named in the Summary Compensation table; and
- all directors and executive officers as a group.

Applicable percentage ownership is based on 44,811,086 shares of common stock outstanding as of April 26, 2010, unless otherwise noted below, together with applicable options and stock appreciation rights, or SARs, for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC, based on factors including voting and investment power with respect to shares. Common stock subject to options and SARs currently exercisable, or exercisable within 60 days after April 26, 2010, are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options and SARs, but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated, the address for each listed stockholder is c/o Blackbaud, Inc., 2000 Daniel Island Drive, Charleston, South Carolina 29492.

Name of Beneficial Owner	**Shares Owned**	**Shares Under Exercisable Options**[1]	**Shares**TD>	10,165
Total current liabilities	519,941		533,095	
Long-term debt	399,003		398,914	
Accrued pension and postretirement benefits	179,026		178,382	
Long-term deferred tax liability	41,546		41,668	
Long-term asbestos liability	746,640		792,701	
Other liabilities	70,869		76,715	
Total liabilities	1,957,025		2,021,475	
Commitments and contingencies (Note 9)				
Equity:				
Preferred shares, par value $.01; 5,000,000 shares authorized	0		0	
Common stock, par value $1.00; 200,000,000 shares authorized, 72,426,139 shares issued	72,426		72,426	
Capital surplus	195,425		189,294	
Retained earnings	1,180,100		1,095,953	
Accumulated other comprehensive loss	(84,946)		(93,512)	
Treasury stock	(467,263)		(450,608)	
Total shareholders equity	895,742		813,553	

Noncontrolling interests		8,761		8,503
Total equity		904,503		822,056
Total liabilities and equity	$	2,861,528	$	2,843,531
Common stock issued		72,426,139		72,426,139
Less: Common stock held in treasury		(15,074,267)		(14,811,885)
Common stock outstanding		57,351,872		57,614,254

See Notes to Condensed Consolidated Financial Statements.

CRANE CO. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	Six Months Ended June 30, 2012	
	2012	2011
Operating activities:		
Net income attributable to common shareholders	$ 114,224	$ 98,904
Noncontrolling interests in subsidiaries earnings	319	11
Net income before allocation to noncontrolling interests	114,543	98,915
Gain on divestitures	(28,060)	(4,258)
Restructuring - Non Cash	2,761	
Depreciation and amortization	29,948	31,627
Stock-based compensation expense	8,458	7,274
Defined benefit plans and postretirement expense	9,973	3,592
Deferred income taxes	15,743	13,520
Cash used for working capital	(90,614)	(85,391)
Defined benefit plans and postretirement contributions	(2,821)	(10,358)
Environmental payments, net of reimbursements	(7,303)	(6,134)
Payments for asbestos-related fees and costs, net of insurance recoveries	(39,217)	(35,621)
Other	2,691	2,037
Total provided by operating activities	16,102	15,203
Investing activities:		
Capital expenditures	(13,780)	(18,282)
Proceeds from disposition of capital assets	1,858	4,530
Proceeds from divestitures	52,665	1,000
Total provided by (used for) investing activities	40,743	(12,752)
Financing activities:		
Equity:		
Dividends paid	(30,075)	(26,859)
Reacquisition of shares on open market	(29,991)	(49,999)
Stock options exercised - net of shares reacquired	8,426	17,024
Excess tax benefit from stock-based compensation	3,278	5,359
Debt:		
Net decrease in short-term debt		(530)
Total used for financing activities	(48,362)	(55,005)
Effect of exchange rates on cash and cash equivalents	(1,273)	10,978
Increase (decrease) in cash and cash equivalents	7,210	(41,576)
Cash and cash equivalents at beginning of period	245,089	272,941

Cash and cash equivalents at end of period	$ 252,299	$ 231,365
Detail of cash used for working capital:		
Accounts receivable	$ (72,308)	$ (67,526)
Inventories	(7,894)	(34,699)
Other current assets	(3,670)	(1,726)
Accounts payable	(11,111)	19,464
Accrued liabilities	(14,435)	(11,142)
U.S. and foreign taxes on income	18,804	10,238
Total	$ (90,614)	$ (85,391)
Supplemental disclosure of cash flow information:		
Interest paid	$ 13,362	$ 12,996
Income taxes paid	$ 13,799	$ 15,734

See Notes to Condensed Consolidated Financial Statements.

CRANE CO. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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. 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, 2011.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued amended guidance on the disclosure requirements on the offsetting of financial assets and liabilities. The amended disclosures will enable financial statement users to compare balance sheets prepared under accepted accounting principles generally accepted in the United States (U.S. GAAP) and International Financial Reporting Standards (IFRS), which are subject to different offsetting models. The disclosures will be limited to financial instruments and derivatives instruments that are either offset in accordance with the U.S. GAAP offsetting guidance or subject to enforceable master netting arrangements or similar agreements. The Company is currently evaluating the impact of the amended guidance on its disclosures.

CRANE CO. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 2 - Segment Results

The Company s segments are reported on the same basis used internally for evaluating performance and for allocating resources. The Company has five reportable segments: Aerospace & Electronics, Engineered Materials, Merchandising Systems, Fluid Handling and Controls. Furthermore, Corporate consists of corporate office expenses including compensation, benefits, occupancy, depreciation, and other administrative costs. 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.

Financial information by reportable segment is set forth below:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Net sales				
Aerospace & Electronics	$ 178,591	$ 171,538	$ 353,759	$ 333,474
Engineered Materials	54,487	60,101	112,647	121,933
Merchandising Systems	97,577	94,010	185,252	188,888
Fluid Handling	302,318	286,141	600,537	546,811
Controls	24,713	21,399	51,104	42,372
Total	$ 657,686	$ 633,189	$ 1,303,299	$ 1,233,478
Operating profit (loss) from continuing operations				
Aerospace & Electronics	$ 38,931	$ 37,157	$ 77,001	$ 71,199
Engineered Materials	5,543	9,130	13,952	19,273
Merchandising Systems	9,115	7,114	13,828	11,787
Fluid Handling	26,836	36,856	66,028	71,605
Controls	3,784	2,712	7,669	5,103
Corporate	(14,832)	(14,118)	(30,804)	(28,680)
Total	69,377	78,851	147,674	150,287
Interest income	454	389	849	679
Interest expense	(6,785)	(6,429)	(13,496)	(13,051)
Miscellaneous - net	(351)	(290)	(698)	3,335*
Income from continuing operations before income taxes	$ 62,695	$ 72,521	$ 134,329	$ 141,250

* Primarily related to the sale of a building and the divestiture of a small product line in the three months ended March 31, 2011.

(in thousands)	**As of June 30, 2012**	**As of December 31, 2011**
Assets		
Aerospace & Electronics	$ 517,080	$ 514,240
Engineered Materials	245,245	245,350
Merchandising Systems	420,560	408,857
Fluid Handling	943,364	909,265
Controls	40,553	64,162
Corporate	694,726	701,657
Total	$ 2,861,528	$ 2,843,531

CRANE CO. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands)	As of June 30, 2012	December 31, 2011
Goodwill		
Aerospace & Electronics	$ 203,525	$ 203,516
Engineered Materials	171,497	171,489
Merchandising Systems	198,188	197,719
Fluid Handling	217,907	220,111
Controls	15,053	27,990
Total	$ 806,170	$ 820,824

Note 3 - Discontinued Operations

On June 19, 2012, the Company sold Azonix Corporation (Azonix), which was formerly part of the Controls segment, to Cooper Industries for $43.4 million, resulting in an after tax gain of $13.6 million. As a result, the Condensed Consolidated Statement of Operations presents Azonix as a discontinued operation.

On June 28, 2012, the Company sold certain assets and operations of the Company s valve service center in Houston, Texas, which was formerly part of the Fluid Handling segment, to Furmanite Corporation for $9.3 million, resulting in an after tax gain of $4.6 million. As a result, the Condensed Consolidated Statement of Operations presents the Company s valve service center in Houston, Texas as a discontinued operation.

The operating results of the discontinued operations for the three and six months ended June 30, 2012 were as follows:

(in thousands)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Net Sales	$ 13,274	$ 10,584	$ 25,544	$ 21,315
Income from discontinued operations before income taxes	$ 2,513	$ 1,092	$ 3,777	$ 2,516
Provision for income taxes	880	382	1,321	880
Income from discontinued operations, net of income taxes	$ 1,633	$ 710	$ 2,456	$ 1,636

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 year. 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 dilutive 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 year.

(in thousands, except per share data)	**Three Months Ended June 30, 2012**	**Three Months Ended June 30, 2011**	**Six Months Ended June 30, 2012**	**Six Months Ended June 30, 2011**
Income from continuing operations	$ 42,838	$ 49,827	$ 93,811	$ 97,279
Less: Non-controlling interest in subsidiaries earnings	185	100	319	11
Income from continuing operations attributable to common shareholders	42,653	49,727	93,492	97,268
Discontinued operations, net of tax	19,909	710	20,732	1,636
Net income attributable to common shareholders	$ 62,562	$ 50,437	$ 114,224	$ 98,904
Average basic shares outstanding	57,762	58,173	57,787	58,259
Effect of dilutive stock options	852	1,175	917	1,198
Average diluted shares outstanding	58,614	59,348	58,704	59,457
Earnings per share - basic: [a]				
Income from continuing operations attributable to common shareholders	$ 0.74	$ 0.85	$ 1.62	$ 1.67
Discontinued operations, net of tax	0.34	0.01	0.36	0.03
Net income attributable to common shareholders	$ 1.08	$ 0.87	$ 1.98	$ 1.70
Earnings per share - diluted: [a]				
Income from continuing operations attributable to common shareholders	$ 0.73	$ 0.84	$ 1.59	$ 1.64
Discontinued operations, net of tax	0.34	0.01	0.35	0.03
Net income attributable to common shareholders	$ 1.07	$ 0.85	$ 1.95	$ 1.66

[a] EPS amounts may not add due to rounding

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 (1.9 million and 1.0 million average options for the second quarter of 2012 and 2011, respectively, and 1.8 million and 0.7 million average options for the first half of 2012 and 2011, respectively).

CRANE CO. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 5 - Changes in Equity and Comprehensive Income

A summary of the changes in equity for the six months ended June 30, 2012 and 2011 is provided below:

	Six Months Ended June 30,					
	2012			2011		
(in thousands)	**Total Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**	**Total Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**
Balance, beginning of period	$ 813,553	$ 8,503	$ 822,056	$ 984,944	$ 8,086	$ 993,030
Dividends	(30,075)		(30,075)	(26,859)		(26,859)
Reacquisition on open market	(29,991)		(29,991)	(49,999)		(49,999)
Exercise of stock options, net of shares reacquired	7,729		7,729	17,308		17,308
Stock compensation expense	8,458		8,458	7,274		7,274
Excess tax benefit from stock based compensation	3,278		3,278	5,359		5,359
Net income	114,224	319	114,543	98,904	11	98,915
Other comprehensive income (loss)	8,566	(61)	8,505	44,026	211	44,237
Comprehensive income	122,790	258	123,048	142,930	222	143,152
Balance, end of period	$ 895,742	$ 8,761	$ 904,503	$ 1,080,957	$ 8,308	$ 1,089,265

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

	June 30, 2012	**December 31, 2011**
Currency translation adjustment	$ 66,618	$ 64,910
Changes in pension and postretirement plan assets and benefit obligation, net of tax benefit *	(151,564)	(158,422)
Accumulated other comprehensive loss	$ (84,946)	$ (93,512)

* Net of tax benefit of $73,309 and $76,179 for June 30, 2012 and December 31, 2011, respectively.

Note 6 - Acquisitions

Acquisitions are accounted for in accordance with the guidance for business combinations. Accordingly, the Company makes an initial allocation of the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and assumed liabilities. The Company obtains this information during due diligence and through other sources. In the months after closing, as the Company obtains additional information about these assets and liabilities, including through tangible and intangible asset appraisals, it is able to refine the estimates of fair value and more accurately allocate the purchase price. Only items identified as of the acquisition date are considered for subsequent adjustment. The Company will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

In July 2011, the Company completed the acquisition of W.T. Armatur GmbH & Co. KG (WTA), a manufacturer of bellows sealed globe valves, as well as certain types of specialty valves, for chemical, fertilizer and thermal oil applications for a purchase price of $37 million in cash and $1 million of assumed debt. WTA s 2010 sales were approximately $21 million, and WTA has been integrated into the Company s Fluid Handling segment. In connection

with the WTA acquisition, the purchase price and initial recording of the transaction were based on preliminary valuation assessments and are subject to change. The initial allocation of the aggregate purchase price was made in the third quarter of 2011 and resulted in current assets of $8 million; property, plant, and equipment of $12 million; identified intangible assets of $9 million, which primarily consist of customer relationships; goodwill of $12 million; and current liabilities of $4 million. The amount allocated to goodwill reflects the benefits the Company expects to realize from the acquisition, as the acquisition is expected to strengthen and broaden the Company s portfolio by providing valves with zero fugitive emissions used in severe service applications. The goodwill from this acquisition is deductible for tax purposes. The pro forma impact of this acquisition on the Company s historical results of operations was not material. See Note 7 for further details on purchase price allocation.

Note 7 - 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 Accounting Standards Codification (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. In certain instances, the Company has aggregated components of an operating segment into a single reporting unit based on similar economic characteristics. At June 30, 2012, the Company had eleven 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 8% and 17% (a weighted average of 11%), 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 s judgment 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 2011, 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.

CRANE CO. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Changes to goodwill are as follows:

(in thousands)	Six Months Ended June 30, 2012	Year Ended December 31, 2011
Balance at beginning of period	$ 820,824	$ 810,285
Additions		10,900
Disposals	(13,966)	
Adjustments to purchase price allocations		3,932
Currency translation	(688)	(4,293)
Balance at end of period	$ 806,170	$ 820,824

For the six months ended June 30, 2012, the disposals represent goodwill associated with the Company s divested businesses. See discussion in Note 3 on discontinued operations for further details. For the year ended December 31, 2011, the additions to goodwill represent the initial purchase price allocation related to WTA, and the adjustments to purchase price allocations pertain to the December 2010 acquisition of Money Controls and the February 2010 acquisition of Merrimac Industries, Inc. (Merrimac).

Changes to intangible assets are as follows:

(in thousands)	Six Months Ended June 30, 2012	Year Ended December 31, 2011
Balance at beginning of period, net of accumulated amortization	$ 146,227	$ 162,636
Additions		5,980
Disposals	(3,789)	
Amortization expense	(9,767)	(21,646)
Currency translation and other	(1,205)	(743)
Balance at end of period, net of accumulated amortization	$ 131,466	$ 146,227

For the six months ended June 30, 2012, the disposals represent intangible assets associated with the Company s divested businesses. See discussion in Note 3 on discontinued operations for further details. For the year ended December 31, 2011, the additions relate to the December 2010 acquisition of Money Controls and the July 2011 acquisition of WTA.

As of June 30, 2012, the Company had $131.5 million of net intangible assets, of which $29.8 million were intangibles with indefinite useful lives, consisting of trade names. The Company amortizes the cost of other intangibles over their estimated useful lives unless such lives are deemed indefinite. 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 the intangibles with indefinite useful lives exceeds the fair value, the intangible asset is written down to its fair value. Fair value is calculated using discounted cash flows.

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A summary of intangible assets follows:

(in thousands)	Weighted Average Amortization Period of Finite Lived Assets (in years)	June 30, 2012			December 31, 2011		
		Gross Asset	Accumulated Amortization	Net	Gross Asset	Accumulated Amortization	Net
Intellectual property rights	17.9	$ 87,630	$ 45,739	$ 41,891	$ 89,619	$ 46,286	$ 43,333
Customer relationships and backlog	11.9	138,501	68,754	69,747	146,291	66,256	80,035
Drawings	9.5	11,149	9,910	1,239	11,824	10,423	1,401
Other	14.3	49,684	31,095	18,589	52,155	30,697	21,458
Total	14.2	$ 286,964	$ 155,498	$ 131,466	$ 299,889	$ 153,662	$ 146,227

Amortization expense for these intangible assets is currently estimated to be approximately $9.0 million in total for the remaining two quarters in 2012, $16.7 million in 2013, $14.9 million in 2014, $12.8 million in 2015, $11.9 million in 2016 and $36.4 million in 2017 and thereafter.

Note 8 - Accrued Liabilities

Accrued liabilities consist of:

(in thousands)	June 30, 2012	December 31, 2011
Employee related expenses	$ 76,530	$ 97,297
Warranty	15,631	16,379
Other	117,519	113,041
Total	$ 209,680	$ 226,717

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 thousands)	Six Months Ended June 30, 2012	Year Ended December 31, 2011

Balance at beginning of period	$	16,379	$	19,198
Expense		4,000		6,759
Changes due to acquisitions/divestitures		(498)		11
Payments / deductions		(4,230)		(9,545)
Currency translation		(20)		(44)
Balance at end of period	$	15,631	$	16,379

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Note 9 - Commitments and Contingencies

Asbestos Liability

Information Regarding Claims and Costs in the Tort System

As of June 30, 2012, 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,		Six Months Ended June 30,		Year Ended December 31,
	2012	2011	2012	2011	2011
Beginning claims	57,398	64,646	58,658	64,839	64,839
New claims	894	893	1,787	1,858	3,748
Settlements	(258)	(263)	(547)	(603)	(1,117)
Dismissals	(474)	(8,873)	(2,516)	(9,690)	(11,059)
MARDOC claims*	(1)		177	(1)	2,247
Ending claims	57,559	56,403	57,559	56,403	58,658

* As of January 1, 2010, the Company was named in 36,448 maritime actions which had been administratively dismissed by the United States District Court for the Eastern District of Pennsylvania (MARDOC claims), and therefore were not included in Beginning claims . As of June 30, 2012, pursuant to an ongoing review process initiated by the Court, 26,575 claims were permanently dismissed, and 3,377 claims remain active (and have been added to Ending claims). In addition, the Company was named in 8 new maritime actions in 2010 (not included in Beginning claims). The Company expects that more of the remaining 6,504 maritime actions will be activated, or permanently dismissed, as the Court s review process continues.

Of the 57,559 pending claims as of June 30, 2012, approximately 19,300 claims were pending in New York, approximately 9,900 claims were pending in Texas, approximately 5,500 claims were pending in Mississippi, and approximately 5,500 claims were pending in Ohio, all jurisdictions in which legislation or judicial orders restrict the types of claims that can proceed to trial on the merits.

Substantially all of the claims the Company resolves are either dismissed or concluded through settlements. To date, the Company has paid two judgments arising from adverse jury verdicts in asbestos matters. The first payment, in the amount of $2.54 million, was made on July 14, 2008, approximately two years after the adverse verdict in the *Joseph Norris* matter in California, after the Company had exhausted all post-trial and appellate remedies. The second payment, in the amount of $0.02 million, was made in June 2009 after an adverse verdict in the *Earl Haupt* case in Los Angeles, California on April 21, 2009.

The Company has tried several cases resulting in defense verdicts by the jury or directed verdicts for the defense by the court, one of which, the *Patrick O Neil* claim in Los Angeles, was reversed on appeal. In an opinion dated January 12, 2012, the California Supreme Court reversed the decision of the Court of Appeal and instructed the trial court to enter a judgment of nonsuit in favor of the defendants.

On March 14, 2008, the Company received an adverse verdict in the *James Baccus* claim in Philadelphia, Pennsylvania, with compensatory damages of $2.45 million and additional damages of $11.9 million. The Company s post-trial motions were denied by order dated January 5, 2009. The case was concluded by settlement in the fourth quarter of 2010 during the pendency of the Company s appeal to the Superior Court of Pennsylvania.

On May 16, 2008, the Company received an adverse verdict in the *Chief Brewer* claim in Los Angeles, California. The amount of the judgment entered was $0.68 million plus interest and costs. The Company is pursuing an appeal in this matter.

On February 2, 2009, the Company received an adverse verdict in the *Dennis Woodard* claim in Los Angeles, California. The jury found that the Company was responsible for one-half of one percent (0.5%) of plaintiffs damages of $16.93 million; however, based on California court rules regarding allocation of damages, judgment was entered against the Company in the amount of $1.65 million, plus costs. Following entry of judgment, the Company filed a motion with the trial court requesting judgment in the Company s favor notwithstanding the jury s verdict, and on June 30, 2009, the court advised that the Company s motion was granted and judgment was entered in favor of the Company. The trial court s ruling was affirmed on appeal by order dated August 25, 2011. The plaintiffs appealed that ruling to the Supreme Court of California, which dismissed the appeal on February 29, 2012; the matter is now finally determined in the Company s favor.

On March 23, 2010, a Philadelphia County, Pennsylvania, state court jury found the Company responsible for a 1/11th share of a $14.5 million verdict in the *James Nelson* claim, and for a 1/20th share of a $3.5 million verdict in the *Larry Bell* claim. On February 23, 2011, the court entered judgment on the verdicts in the amount of $0.2 million against the Company, only, in *Bell*, and in the amount of $4.0 million, jointly, against the Company and two other defendants in *Nelson*, with additional interest in the amount of $0.01 million being assessed against the Company, only, in *Nelson*. All defendants, including the Company, and the plaintiffs took timely appeals of certain aspects of those judgments. The *Nelson* appeal is pending. The Company resolved the *Bell* appeal by settlement, which is reflected in the settled claims for 2012.

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 has filed post-trial motions seeking to overturn the verdict, to grant a new trial, or to reduce the damages, which the Company argues are 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 a written decision is expected to be issued. The Company anticipates that it will likely appeal any judgment that may be entered on the verdict.

On March 9, 2012, a Philadelphia County, Pennsylvania, state court jury found the Company responsible for a 1/8th share of a $123,000 verdict in the *Frank Paasch* claim. The Company and plaintiffs filed post-trial motions. On May 31, 2012, on plaintiffs motion, the Court entered an order dismissing the claim against the Company, with prejudice, and without any payment.

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, 2012 and 2011 totaled $49.7 million and $56.2 million, respectively. In contrast to the 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, 2012 and 2011 totaled a $39.2 million net payment and $35.6 million net payment, respectively. Detailed below are the comparable amounts for the periods indicated.

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(in millions)	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,
	2012	2011	2012	2011	2011
Settlement / indemnity costs incurred (1)	$ 10.4	$ 13.9	$ 20.9	$ 30.1	$ 50.2
Defense costs incurred (1)	15.7	14.7	28.8	26.1	55.3
Total costs incurred	$ 26.1	$ 28.6	$ 49.7	$ 56.2	$ 105.5
Settlement / indemnity payments	$ 8.6	$ 13.0	$ 18.0	$ 21.5	$ 55.0
Defense payments	15.2	16.7	28.0	27.4	56.5
Insurance receipts	(2.8)	(6.8)	(6.8)	(13.3)	(32.2)
Pre-tax cash payments	$ 21.0	$ 22.9	$ 39.2	$ 35.6	$ 79.3

(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, 2012, the Company has resolved (by settlement or dismissal) approximately 87,500 claims, not including the MARDOC claims referred to above. The related settlement cost incurred by the Company and its insurance carriers is approximately $350 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, 2011, 2010 and 2009 was $4,123, $7,036 and $4,781 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 largely on the Company s experience during a base reference period of eleven quarterly periods (consisting of the two full preceding calendar years and three additional quarterly periods to the estimate date) for claims filed, settled and dismissed. The Company s experience is then compared to the results of previously conducted epidemiological studies estimating the number of individuals likely to develop asbestos-related diseases. Those studies were undertaken in connection with national analyses of the population of workers believed to have been exposed to asbestos. Using that information, HR&A estimates the number of future claims that would be filed against the Company 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, based on claim experience during the reference period 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. Although the methodology used by HR&A will also show claims and costs for periods subsequent to the indicated period (up to and including the endpoint of the asbestos studies referred to above), management believes that the level of uncertainty regarding the various factors used in estimating future asbestos costs is too great to provide for reasonable estimation of the number of future claims, the nature of such claims or the cost to resolve them for years beyond the indicated 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 over the past five to ten years 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 are estimated to provide $30 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 during the updated reference period (consisting of the preceding eleven quarterly periods) as well as average settlement costs by disease category (mesothelioma, lung cancer, other cancer, asbestosis and other non-malignant conditions) during that period. 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, 2011, the Company updated and 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 2021. The Company s previous estimate was for asbestos claims filed or projected to be filed through 2017. As a result of this updated estimate, the Company recorded an additional liability of $285 million as of December 31, 2011. The Company s decision to take this action at such date was based on several factors which contribute to the Company s ability to reasonably estimate this liability for the additional period noted. First, the number of mesothelioma claims (which although constituting approximately 8% of the Company s total pending asbestos claims, have accounted for approximately 90% of the Company s aggregate settlement and defense costs) being filed against the Company and associated settlement costs have recently stabilized. In the Company s opinion, the outlook for mesothelioma claims expected to be filed and resolved in the forecast period is reasonably stable. Second, there have been 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 over the past several years that have reduced the number and types of claims that can proceed to trial, which has been a significant factor in stabilizing the asbestos claims activity. Fourth, the Company has now entered into coverage-in-place agreements with almost all of its excess insurers, which enables the Company to project a more stable relationship between settlement and defense costs paid by the Company and reimbursements from its insurers. Taking all of 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 2021. While it is probable that the Company will incur additional

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charges for asbestos liabilities and defense costs in excess of the amounts currently provided, the Company does not believe that any such amount can be reasonably estimated beyond 2021. Accordingly, no accrual has been recorded for any costs which may be incurred for claims which may be made subsequent to 2021.

Management has made its best estimate of the costs through 2021 based on the analysis by HR&A completed in January 2012. As of June 30, 2012, 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, 2012. A liability of $894 million was recorded as of December 31, 2011 to cover the estimated cost of asbestos claims now pending or subsequently asserted through 2021, of which approximately 80% is attributable to settlement and defense costs for future claims projected to be filed through 2021. The liability is reduced when cash payments are made in respect of settled claims and defense costs. The liability was $848 million as of June 30, 2012. 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 2021, 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, 2012 was $101 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 six of its excess insurer groups, the Company entered into policy buyout agreements, settling all asbestos and other coverage obligations for an agreed sum, totaling $79.5 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 updated 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

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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, 2011 (for claims filed or expected to be filed through 2021), the insurance consultant s model forecasted that approximately 25% 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 2021) that is in excess of available insurance coverage allocated to such years. An asset of $225 million was recorded as of December 31, 2011 representing the probable insurance reimbursement for such claims expected through 2021. The asset is reduced as reimbursements and other payments from insurers are received. The asset was $218 million as of June 30, 2012.

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 policy buyout agreements. Since December 2011, there have been no developments that have caused the Company to change the estimated 25% rate, although 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. 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. 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; however, the Company is currently unable to estimate such future changes and, accordingly, while it is probable that the Company will incur additional charges for asbestos liabilities and defense costs in excess of the amounts currently provided, the Company does not believe that any such amount can be reasonably determined beyond 2021. Although the resolution of these claims may 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, 2012 is substantially related to the former manufacturing site in Goodyear, Arizona (the Goodyear Site) discussed below.

The Goodyear Site was operated by UniDynamics/Phoenix, Inc. (UPI), which became an indirect subsidiary of the Company in 1985 when the Company acquired UPI s parent company, UniDynamics Corporation. UPI manufactured explosive and pyrotechnic compounds, including components for critical military programs, for the U.S. government at the Goodyear Site from 1962 to 1993, under contracts with the Department of Defense and other government agencies and certain of their prime contractors. No manufacturing operations have been conducted at the Goodyear Site since 1994. The Goodyear Site was placed on the National Priorities List in 1983, and is now part of the Phoenix-Goodyear Airport North Superfund Site. 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. A soil vapor extraction system was in operation from 1994 to 1998, was restarted in 2004, and is currently in operation. The Company recorded a liability in 2004 for estimated costs to remediate the Goodyear Site. 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 fourth quarter of 2007, the Company and its technical advisors determined that changing groundwater flow rates and contaminant plume direction at the Goodyear Site required additional extraction systems as well as modifications and upgrades of the existing systems. In consultation with its technical advisors, the Company prepared a forecast of the expenditures required for these new and upgraded systems as well as the costs of operation over the forecast period through 2014. Taking these additional costs into consideration, the Company estimated its liability for the costs of such activities through 2014 to be $41.5 million as of December 31, 2007. During the fourth quarter of 2008, based on further consultation with the Company s advisors and the EPA and in response to groundwater monitoring results that reflected a continuing migration in contaminant plume direction during the year, the Company revised its forecast of remedial activities to increase the level of extraction systems and the number of monitoring wells in and around the Goodyear Site, among other things. As of December 31, 2008, the revised liability estimate was $65.2 million which resulted in an additional charge of $24.3 million during the fourth quarter of 2008. During the fourth quarter of 2011, additional remediation activities were determined to be required, in consultation with the Company s advisors, to further address the migration of the contaminant plume. As a result, the Company recorded a charge of $30.3 million during the fourth quarter of 2011, extending the accrued costs through 2016. The total estimated gross liability was $57.6 million as of June 30, 2012, and as described below, a portion is reimbursable by the U.S. Government. The current portion of the total estimated liability was approximately $16.0 million and represents the Company s best estimate, in consultation with its technical advisors, of total remediation costs expected to be paid during the twelve-month period.

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Estimates of the Company s environmental liabilities at the Goodyear Site are based on currently available facts, present laws and regulations and current technology available for remediation, and are recorded on an undiscounted basis. These estimates consider the Company s prior experience in the Goodyear Site investigation and remediation, as well as available data from, and in consultation with, the Company s environmental specialists. Estimates at the Goodyear Site are subject to significant uncertainties caused primarily by the dynamic nature of the Goodyear Site conditions, the range of remediation alternatives available, together with the corresponding estimates of cleanup methodology and costs, as well as ongoing, required regulatory approvals, primarily from the EPA. Accordingly, it is likely that upon completing the supplemental remediation investigation and feasibility study and reaching a final work plan in or before 2016, an adjustment to the Company s liability estimate may be necessary to account for the agreed upon additional work as further information and circumstances regarding the Goodyear Site characterization develop. While actual remediation cost therefore may be more than amounts accrued, the Company believes it has established adequate reserves for all probable and reasonably estimable costs.

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 2016 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, 2012, the Company has recorded a receivable of $12.7 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.

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, the Crab Orchard Site was transferred to the United States Fish and Wildlife Service (FWS), and 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 an remedial investigation and feasibility study for the Additional and Uncharacterized Sites Operable Unit (AUS-OU) at the Crab Orchard Site, pursuant to an Administrative Order on Consent between GD-OTS and the U.S. Fish and Wildlife Service, the EPA and the Illinois Environmental Protection Agency. The Company is not a party to that agreement, and has not been asked by any agency of the United States Government to participate in any investigative or remedial activity relative to the Crab Orchard Site. The Company has been informed that GD-OTS completed a Phase I remedial investigation in 2008, and a Phase II remedial investigation in 2010. Additionally, FWS completed its human health and baseline ecological risk assessments in 2010, and submitted a revised human health risk assessment in December 2011. The draft remedial investigation, and revised human health risk assessment and baseline ecological risk reports are currently under review by FWS and GD-OTS respectively. A revised draft remedial investigation report was submitted in late December 2011, and GD-OTS is awaiting comments from FWS. Pending receipt of FWS s review comments, it is unclear when a final remedial investigation report will be submitted. Work on interim deliverables for the feasibility study is underway, but outstanding issues with respect to the remedial investigation make it unlikely that a draft feasibility study will be submitted until, at the earliest 2013. GD-OTS has asked the Company to participate in a voluntary cost allocation exercise with respect to the costs it has incurred in performing the AUS-OU remedial investigation and feasibility study, but the Company, along with a number of other PRPs that were contacted, declined citing the absence of certain necessary parties as well as an underdeveloped environmental record. In light of the ongoing investigative activities, and the apparent willingness of the US

government to consider participation in an allocation proceeding, it is possible that an allocation proceeding may go forward beginning after submission of the final remedial investigation report in late 2012. The Company does not believe it likely that any determination of the allocable share of the various PRPs, including the U.S. Government, will be completed before late 2013. 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 has notified its insurers of this potential liability and will seek coverage under its insurance policies.

On a related matter, the United States has brought suit against GD-OTS and Schlumberger Technology Corporation (Schlumberger), seeking to recover response costs that the United States has allegedly incurred in connection with alleged environmental contamination at a portion of the Crab Orchard Site known as Site 36, a portion of the Site s Miscellaneous Areas Operable Unit. This area, reported to be the wastewater treatment plant formerly serving the Crab Orchard Site, is not a part of the AUS-OU, as discussed above. On June 1, 2012, GD-OTS and Schlumberger filed a third-party complaint against the Company and seven other third-party defendants, seeking to shift a portion of any costs that GD-OTS and Schlumberger are held liable to pay to other entities formerly conducting activities at the Site. GD-OTS and Schlumberger have also counterclaimed against the United States, seeking to compel the United States to bear a share of the response costs the United States allegedly has incurred. The Company s answer is not due until August 14, 2012, although GD-OTS and Schlumberger have proposed staying third-party claims until after resolution of the claims between the United States and GD-OTS and Schlumberger. Accordingly, it is unclear when any determination of the allocable share of the various PRPs, including the U.S. Government, will be completed. Nor is it possible at this time to reasonably estimate the amount of any obligation with respect to Site 36. The Company has notified its insurers of this potential liability.

Other Proceedings

On January 8, 2010, a lawsuit related to the acquisition of Merrimac was filed in the Superior Court of the State of New Jersey. The action, brought by a purported stockholder of Merrimac, names Merrimac, each of Merrimac s directors, and Crane Co. as defendants, and alleges, among other things, breaches of fiduciary duties by the Merrimac directors, aided and abetted by Crane Co., that resulted in the payment to Merrimac stockholders of an allegedly unfair price of $16.00 per share in the acquisition and unjust enrichment of Merrimac s directors. The complaint seeks certification as a class of all Merrimac stockholders, except the defendants and their affiliates, and unspecified damages. Simultaneously with the filing of the complaint, the plaintiff filed a motion that sought to enjoin the transaction from proceeding. After a hearing on January 14, 2010, the court denied the plaintiff s motion. All defendants thereafter filed motions seeking dismissal of the complaint on various grounds. After a hearing on March 19, 2010, the court denied the defendants motions to dismiss and ordered the case to proceed to pretrial discovery. All defendants have filed their answers and deny any liability. The Court certified the class, and the parties are engaged in pre-trial discovery. The Company believes that it has valid defenses to the underlying claims raised in the complaint. The Company has given notice of this lawsuit to Merrimac s and the Company s insurance carriers and will seek coverage for any resulting loss. As of June 30, 2012, no loss amount has been accrued in connection with this lawsuit because a loss is not considered probable, nor can an amount be reasonably estimated.

The Company is defending a series of five separate lawsuits, which have now been consolidated, revolving around a fire that occurred in May 2003 at a chicken processing plant located near Atlanta, Georgia that destroyed the plant. The aggregate damages demanded by the plaintiff, consisting largely of an estimate of lost profits which continues to grow with the passage of time, are currently in excess of $260 million. These lawsuits contend that certain fiberglass-reinforced plastic material manufactured by the Company that was installed inside the plant was unsafe in that it acted as an accelerant, causing the fire to spread rapidly, resulting in the total loss of the plant and property. In September 2009, the trial court entertained motions for summary judgment from all parties, and subsequently denied those motions. In November 2009, the Company sought and was granted permission to appeal the trial court s denial of its motions. The appellate court issued its opinion on November 24, 2010, rejecting the plaintiffs claims for per se

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negligence and statutory violations of the Georgia Life Safety Code, but allowing the plaintiffs to proceed on their ordinary negligence claim, which alleges that the Company failed to adequately warn end users of how the product would perform in a fire. At the conclusion of a seven-week trial, the jury found the Company not liable for any of the claims or damages contained in the plaintiff s complaint. The plaintiff has not filed a notice of appeal, but it s time to do so has not yet lapsed. The Company has given notice of these lawsuits to its insurance carriers and will seek coverage for any resulting losses. The Company s carriers have issued standard reservation of rights letters but are engaged with the Company s trial counsel to monitor the defense of these claims. If the plaintiffs in these lawsuits were to prevail on appeal (should one be pursued) and be awarded the full extent of their claimed damages, and insurance coverage were not fully available, the resulting liability could have a material effect on the Company s results of operations and cash flows in the periods affected. As of June 30, 2012, no loss amount has been accrued in connection with these suits because a loss is not considered probable, nor can an amount be reasonably estimated.

Pursuant to recently enacted regulations in New Jersey, the Company performed certain tests of the indoor air quality of approximately 40 homes in a residential area surrounding a former manufacturing facility in Roseland, New Jersey, to determine if any contaminants (volatile organic compound vapors from groundwater) from the facility were present in those homes. The Company installed vapor mitigation equipment in three homes where contaminants were found. On April 15, 2011, those three homeowners, and the tenants in one of those homes, filed separate suits against the Company seeking unspecified compensatory and punitive damages for their lost property value and nuisance. In addition, a homeowner in the testing area, whose home tested negative for the presence of contaminants, filed a class action suit against the Company on behalf of himself and 142 other homeowners in the surrounding area, claiming damages in the nature of loss of value on their homes due to their proximity to the facility. It is not possible at this time to reasonably estimate the amount of a loss and therefore, no loss amount has been accrued for the claims because among other things, the extent of the environmental impact, consideration of other factors affecting value have not yet advanced to the stage where a reasonable estimate can be made.

A number of other lawsuits, claims and proceedings 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. While the outcome of litigation cannot be predicted with certainty, and some of these other lawsuits, claims or proceedings may be determined adversely to the Company, the Company does not believe that the disposition of any such other pending matters is likely to have a material impact on its financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a significant impact on the Company s results of operations and cash flows for that period.

Other Commitments

The Company entered into a seven year operating lease for an airplane in the first quarter of 2007 which includes a maximum residual value guarantee of $14.1 million by the Company if the fair value of the airplane is less than $22.1 million. This commitment is secured by the leased airplane and the residual value guarantee liability is $2.9 million as of June 30, 2012.

CRANE CO. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 10 - Pension and Other Postretirement Benefit Plans

The components of net periodic cost are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
(in thousands)	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
Service cost	$ 3,495	$ 2,925	$ 29	$ (58)	$ 6,990	$ 5,901	$ 58	$ 57
Interest cost	9,334	9,984	127	(318)	18,668	19,111	254	285
Expected return on plan assets	(12,830)	(13,365)			(25,660)	(25,172)		
Amortization of prior service cost	100	107	(59)	52	200	209	(118)	(50)
Amortization of net loss (gain)	4,816	1,391	(21)	125	9,623	3,369	(42)	(118)
Net periodic cost	$ 4,915	$ 1,042	$ 76	$ (199)	$ 9,821	$ 3,418	$ 152	$ 174

The Company expects, based on current actuarial calculations, to contribute approximately $5 million to its defined benefit plans and $1 million to its other postretirement benefit plans in 2012, of which $2.2 million and $0.6 million have been contributed during the first six months of 2012, respectively. The Company contributed $47.5 million to its defined benefit plans and $1.4 million to its other postretirement benefit plans in 2011. 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 11 - Income Taxes

The Company calculated its income tax provision for the three and six months ended June 30, 2012 in accordance with the requirements of Accounting Standards Codification Topic 740, Income Taxes.

The Company s effective tax rate attributable to continuing operations of 31.8% for the three months ended June 30, 2012 is higher than the Company s effective tax rate attributable to continuing operations of 31.3% for the three months ended June 30, 2011 primarily due to the statutory expiration of the U.S. federal research tax credit as of December 31, 2011, partially offset by lower taxes on non-U.S. earnings.

The Company s effective tax rate attributable to continuing operations of 30.2% for the six months ended June 30, 2012 is lower than the Company s effective tax rate attributable to continuing operations of 31.1% for the six months ended June 30, 2011 primarily due to lower taxes on non-U.S. earnings partially offset by the statutory expiration of the U.S. federal research credit as of December 31, 2011.

The Company s effective tax rates attributable to continuing operations for the three and six months ended June 30, 2012 are lower than the statutory U.S. federal tax rate of 35% primarily as a result of income earned in jurisdictions with tax rates lower than the statutory U.S. federal tax rate and the U.S. federal tax benefit for domestic manufacturing activities. These items are partially offset by net U.S. state taxes, and certain expenses that are statutorily non-deductible for income tax purposes.

During the three months and six ended June 30, 2012, the Company s gross unrecognized tax benefits increased by $0.8 million and $1.2 million, respectively, as a result of tax positions taken in both the current and prior periods. During the three and six months ended June 30, 2012, the total amount of unrecognized tax benefits that, if recognized, would affect the Company s effective tax rate increased by $0.7 million and $1.2 million, respectively.

The Company recognizes interest related to uncertain tax positions in its income tax expense. During the three and six months ended June 30, 2012, the total amount of interest expense related to unrecognized tax benefits recognized in the Company s consolidated statement of operations was $0.1 million and $0.2 million, respectively. At June 30, 2012 and December 31, 2011, the total amount of accrued interest expense related to unrecognized tax benefits recorded in the Company s consolidated balance sheet was $0.7 million and $0.6 million, respectively.

As of June 30, 2012, it is reasonably possible that the Company s unrecognized tax benefits will decrease by $0.3 million during the next twelve months as a result of activity related to tax positions expected to be taken and the expiration of the statute of limitations on assessment.

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 Internal Revenue Service (IRS) has completed its examinations of the Company s consolidated U.S. federal income tax returns through 2008; however, the 2008 federal income tax return of an acquired subsidiary remains open to 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 2007. As of June 30, 2012, the Company and its subsidiaries are under examination in various jurisdictions, including Canada (2007 through 2009), Germany (2000 through 2009), and California (2007 and 2008).

The Company believes that adequate accruals have been provided for all jurisdictions open years.

Note 12 - Long-Term Debt and Notes Payable

The following table summarizes the Company s debt as of June 30, 2012 and December 31, 2011:

(in thousands)	**June 30, 2012**	**December 31, 2011**
Long-term debt consists of:		
5.50% notes due 2013	$ 199,825	$ 199,753
6.55% notes due 2036	199,178	199,161
Total long-term debt	$ 399,003	$ 398,914
Short-term borrowings	$ 1,102	$ 1,112

Note 13 - 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 June 30, 2012, the foreign exchange contracts designated as hedging instruments did not have a material impact on the Company s statement 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 $170 million and $155 million as of June 30, 2012 and December 31, 2011, respectively. The settlement of derivative contracts for the six months ended June 30, 2012 and 2011 resulted in a net cash outflow of $5.8 million and a net cash inflow of $5.5 million, respectively, and is reported with Total provided by operating activities on the Condensed Consolidated Statements of Cash Flows.

Note 14 - 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.

CRANE CO. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table summarizes assets and liabilities measured at fair value on a recurring basis at the dates indicated:

	June 30, 2012				December 31, 2011			
(in thousands)	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Assets:								
Derivatives - foreign exchange contracts	$	$ 88	$	$ 88	$	$ 290	$	$ 290
Liabilities:								
Derivatives - foreign exchange contracts	$	$ 5,585	$	$ 5,585	$	$ 6,060	$	$ 6,060

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.

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 $422 million and $419.0 million at June 30, 2012 and December 31, 2011, respectively.

Note 15 - Restructuring

The Company recorded pre-tax restructuring charges of $14.7 million in the second quarter of 2012, including $13.8 million associated with repositioning actions designed to improve profitability largely beginning in 2013, primarily in the European portion of the Fluid Handling segment and a $0.9 million, net charge, related to the completion of previous restructuring actions.

The $13.8 million of restructuring charges included severance and other costs related to the planned closure of two small European plants, the transfer of certain manufacturing operations from higher cost to lower cost Company facilities and other staff reduction actions. The following table summarizes the restructuring charges by cost type and business segment:

(in millions)	Severance	Asset Write-down	Other	Total
Aerospace & Electronics	$	$	$	$
Engineered Materials	0.1	1.6		1.7
Merchandising Systems	0.7			0.7

Fluid Handling	10.8	0.5	0.1	11.4
Controls				
	$ 11.6	$ 2.1	$ 0.1	$ 13.8

CRANE CO. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company expects the 2012 actions to result in workforce reductions of approximately 200 employees, or about 2% of the Company s global workforce. The Company expects to incur additional restructuring and related charges of approximately $5 million during the second half of 2012 to complete these actions, as follows: Engineered Materials ($2 million) and Fluid Handling ($3 million). The Company expects pre-tax cash payments of approximately $5 million in 2012 and an additional $10 million in 2013 pertaining to the restructuring charges, which the Company will fund with cash generated from operations.

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, or anticipates, other similar phrases, or the negatives of these terms.

Reference herein to Crane , 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, 2011 filed with the Securities and Exchange Commission and are incorporated by reference herein.

Overview

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

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

Outlook Continuing Operations

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. These industries are subject to fluctuations in domestic and international economies as well as to currency fluctuations, inflationary pressures, and commodity costs.

The global economy remains uncertain due, in part, to persistent high unemployment in the U.S. and Europe, a weak U.S. and European housing market, government budget reduction plans, concerns over the deepening European sovereign debt crisis and slowing economies in China and India. Although a slower global economy is likely, we believe we are positioned to achieve profitable growth in 2012. We expect a combination of limited market growth and gains in market share to drive profitable growth in 2012, albeit at a reduced, year-over-year rate compared to 2011. We expect further improvements in our longer, late cycle businesses within Fluid Handling and Aerospace & Electronics while our outlook is relatively stable, in aggregate, for our short cycle businesses (Engineered Materials and Merchandising Systems), with the potential for slight improvement in 2012. Specifically, in 2012, we expect core sales from continuing operations to increase 6% to 7%, sales from acquisitions to increase less than 1% and unfavorable foreign exchange of 2%. In aggregate, we expect total year-over-year sales growth of 4% to 5%.

In response to weak European economic conditions as well as opportunities to enhance our cost structure in certain businesses, in the second quarter of 2012, we recorded $14.7 million of restructuring charges associated with repositioning actions designed to improve profitability, primarily in the European portion of the Fluid Handling segment and, to a lesser extent in our Engineered Materials and Merchandising Systems segments. We expect to record an additional $5 million of charges in the second half of 2012 related to these initiatives. The Company expects pre-tax cash payments of approximately $5 million in 2012 and an additional $10 million in 2013 pertaining to the restructuring charges, which the Company will fund with cash generated from operations. Approximately $12 million in annualized savings associated with these initiatives will largely commence in 2013.

Aerospace & Electronics

In 2012, we continue to believe market conditions in the aerospace industry will remain positive and, accordingly, we expect to achieve higher sales and profits than 2011 in our Aerospace Group, as we benefit from higher build rates for large commercial aircraft, new products and an expanded global sales force. In addition, we expect aftermarket sales in the second half of 2012 to remain consistent with the first half of 2012. We forecast reasonably stable results for our Electronics Group despite reductions in overall defense spending, as we continue to expect growth in our commercial business, which comprises about 39% of Electronics sales, to offset a slight decline in defense related sales.

Engineered Materials

In our Engineered Materials segment, sales were lower than expected during the first half of 2012, reflecting difficult competitive conditions and production delays, notably in our transportation business. In addition, we continue to see challenging end market conditions, particularly in Europe, and in response, we recorded restructuring charges of $1.1 million related to closing a small facility in England. We expect to incur an additional $2 million of charges related to these actions in the second half of the year. Accordingly, in 2012, we now expect a modest decline in sales volume and lower operating profit.

Merchandising Systems

In 2012, we continue to expect relatively flat sales for our Merchandising Systems segment, reflecting modest core growth offset by unfavorable foreign exchange translation. In Payment Solutions, we expect sales to increase modestly due to a gradual improvement in market demand for new products. In Vending Solutions, we expect revenue to remain close to 2011 levels, reflecting continued economic uncertainty. As part of our repositioning actions, we plan to consolidate the manufacturing of certain products and optimize engineering resources within our Payment Solutions business. In connection with these initiatives, restructuring charges of $2.3 million were recorded in the second quarter of 2012. Operating profit is expected to improve (inclusive of the restructuring charges), led by productivity initiatives across the segment.

Fluid Handling

For 2012, in our Fluid Handling segment, we expect further sales growth over 2011 levels primarily led by recovery in our Energy and ChemPharma business units, which are benefiting from exposure to their late cycle end markets and an expanded sales force. We expect unfavorable foreign exchange translation. While we expect maintenance, repair & overhaul (MRO) as well as project businesses to be improved over 2011, activity has recently decelerated. Market conditions in Europe are somewhat depressed, particularly for certain short cycle portions of the Fluid Handling segment, reflecting economic uncertainty. In addition, demand from global power markets has softened, with some customers delaying delivery dates. In response to these weaker end market conditions and opportunities to reduce cost at certain European facilities, we recorded $11.4 million of restructuring charges in the second quarter related to the transfer of certain manufacturing operations from higher cost to lower cost Company facilities and

other staff reduction actions. We expect to incur an additional $3 million of charges related to these actions in the second half of the year. Accordingly, we expect only a modest improvement in operating profit over 2011.

Controls

In our Controls segment, while European markets have softened, we continue to anticipate growth in the oil and gas and transportation end markets, resulting in higher sales and operating profit in 2012 compared to 2011.

Results from Continuing Operations Three Month Periods Ended June 30

All comparisons below refer to the second quarter 2012 versus the second quarter 2011, unless otherwise specified.

Second quarter of 2012 compared with second quarter of 2011

	Second Quarter		Change	
(dollars in millions)	**2012**	**2011**	**$**	**%**
Net sales	$ 657.7	$ 633.2	$ 24.5	3.9%
Operating profit from continuing operations	69.4	78.9	(9.5)	(12.0)
Restructuring charge *	14.7			
Operating margin from continuing operations	10.5%	12.5%		
Other income (expense):				
Interest income	0.5	0.4	0.1	16.7
Interest expense	(6.8)	(6.4)	(0.4)	(5.5)
Miscellaneous - net	(0.4)	(0.3)	(0.1)	(21.0)
	(6.7)	(6.3)	(0.4)	(5.6)
Income from continuing operations before income taxes	62.7	72.5	(9.8)	(13.5)
Provision for income taxes	19.9	22.7	(2.8)	(12.5)
Income from continuing operations	42.8	49.8	(7.0)	(14.0)

* Restructuring charges are included in operating profit and operating margin.

Second quarter 2012 sales increased $24.5 million, or 3.9%, compared to the second quarter of 2011. Core business sales for the second quarter increased approximately $36.3 million, or 5.8%. Sales also increased $6.4 million, or 1.0%, due to the net impact of divestitures and acquisitions. The impact of currency translation decreased reported sales by approximately $18.2 million, or 2.9%, as the U.S. dollar strengthened against other major currencies in the second quarter of 2012 compared to the second quarter of 2011. Net sales related to operations outside the U.S. were 41.0% and 41.1% of total net sales for the quarters ended June 30, 2012 and 2011, respectively.

Operating profit from continuing operations was $69.4 million in the second quarter 2012 compared to $78.9 million in the same period of 2011. The decrease in operating profit reflected declines in our Fluid Handling and Engineered Materials segments, partially offset by improved performance in our Merchandising Systems, Aerospace & Electronics and Controls segments. Operating profit margins were 10.5% in the

second quarter of 2012, compared to 12.5% in the comparable period in 2011. Operating profit in the second quarter of 2012 included restructuring charges of $14.7 million associated with repositioning actions designed to improve profitability beginning in 2013.

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, 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 attributable to continuing operations of 31.8% for the three months ended June 30, 2012 is higher than our effective tax rate attributable to continuing operations of 31.3% for the three months ended June 30, 2011 primarily due to the statutory expiration of the U.S. federal research tax credit as of December 31, 2011, partially offset by lower taxes on our non-U.S. earnings.

Results from Discontinued Operations Three Month Periods Ended June 30

(dollars in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Income from Continuing Operations	$ 42.8	$ 49.8
Discontinued Operations:		
Income from Discontinued Operations, net of tax	1.6	0.7
Gain from Sales of Discontinued Operations, net of tax	18.3	
Discontinued Operations, net of tax	19.9	0.7
Net income before allocation to noncontrolling interests	$ 62.7	$ 50.5

For the three months ended June 30, 2012, we reported two divested businesses as discontinued operations on our Condensed Consolidated Statement of Operations. On June 19, 2012, we sold Azonix Corporation (Azonix), which was formerly part of the Controls segment, to Cooper Industries for $43.4 million, resulting in an after tax gain of $13.6 million. In the three months ended June 30, 2012, Azonix had sales and pre-tax profit from operations of $8.5 million and $1.6 million, respectively. On June 28, 2012, we sold certain assets and operations of the Company s valve service center in Houston, Texas, which was formerly part of the Fluid Handling segment, to Furmanite Corporation for $9.3 million, resulting in an after tax gain of $4.6 million. In the three months ended June 30, 2012, the service center had sales and pre-tax profit from operations of $4.8 million and $0.9 million, respectively.

Segment Results of Continuing Operations Three Month Periods Ended June 30

The following information should be read in conjunction with our condensed consolidated financial statements and related notes. The segment results exclude the operating results of discontinued operations for all periods presented.

Aerospace & Electronics

(dollars in millions)	Second Quarter 2012	Second Quarter 2011	Change	
Sales	$ 178.6	$ 171.5	$ 7.1	4.1%
Operating profit	$ 38.9	$ 37.2	$ 1.8	4.8%
Operating margin	21.8%	21.7%		

The second quarter 2012 sales increase of $7.1 million reflected sales increases of $6.8 million and $0.3 million in the Aerospace Group and Electronics Group, respectively. The segment s operating profit increased $1.8 million, or 4.8%, in the second quarter of 2012 when compared to the same period in the prior year, driven by strong sales growth and margin improvement in the Aerospace Group which more than offset a decrease in the Electronics Group.

Aerospace Group sales of $110.9 million increased $6.8 million, or 6.5%, from $104.1 million in the prior year period. The increase was due to higher original equipment manufacturers (OEM) product sales of 8.0% and higher aftermarket product sales of 4.5%. The OEM sales increase reflects higher commercial product sales associated with

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business jets and large aircraft while sales associated with regional aircraft declined slightly. The aftermarket sales increase primarily reflects higher commercial and military modernization and upgrade product sales. During the second quarter of 2012, sales to OEMs and sales to aftermarket customers were 58.0% and 42.0%, respectively, of total sales, compared to 57.2% and 42.8%, respectively, in the same period last year. Aerospace operating profit increased by $2.4 million in the second quarter of 2012, compared to the second quarter of 2011, primarily due to leverage on the higher sales volume.

Electronics Group sales of $67.7 million increased $0.3 million, or 0.4%, from $67.4 million in the prior year period reflecting higher Power Solution sales offsetting declines in Microwave and Microelectronic sales. Operating profit decreased $0.6 million compared to the second quarter of 2011, primarily reflecting a less favorable product mix.

Engineered Materials

	Second Quarter		Change	
(dollars in millions)	2012	2011		
Sales	$ 54.5	$ 60.1	$ (5.6)	(9.3%)
Operating profit	$ 5.5	$ 9.1	$ (3.6)	(39.3%)
Restructuring charge*	$ 1.1	$		
Operating margin	10.2%	15.2%		

* Restructuring charges are included in operating profit and operating margin.

Second quarter 2012 sales of $54.5 million decreased $5.6 million, or 9.3%, reflecting lower sales to our transportation-related customers and, to a lesser extent, our international and building product customers. We experienced a 28.7% sales decrease to our transportation-related customers reflecting difficult competitive conditions and customer production delays. Sales to our building products customers decreased by 4.6% reflecting soft commercial construction markets. Sales to our traditional RV manufacturers remained flat compared to prior year. Operating profit in the second quarter of 2012 decreased $3.6 million, or 39.3%, primarily as a result of lower sales. Operating profit in the second quarter of 2012 included restructuring charges of $1.1 million. Our restructuring actions include the anticipated closure of a small manufacturing facility in the United Kingdom, which had total sales of $8 million in 2011. We expect to supply selected European customers from plants located in the United States.

Merchandising Systems

	Second Quarter		Change	
(dollars in millions)	2012	2011		
Sales	$ 97.6	$ 94.0	$ 3.6	3.8%
Operating profit	$ 9.1	$ 7.1	$ 2.0	28.1%
Restructuring charge*	$ 2.3	$		
Operating margin	9.3%	7.6%		

* Restructuring charges are included in operating profit and operating margin.

Second quarter 2012 sales increased $3.6 million, or 3.8%, reflecting a core sales increase of $6.7 million, or 7.1%, partially offset by unfavorable foreign currency translation of $3.1 million, or 3.3%. We experienced higher sales in our Vending Solutions business, and to a

lesser extent in our Payment Solutions business. Operating profit in the second quarter of 2012 increased $2.0 million, or 28.1%, reflecting strong margin improvement resulting from productivity gains, in both Vending and Payment Solutions, partially offset by restructuring charges of $2.3 million. As part of our restructuring actions, management plans to consolidate the manufacturing of certain products and optimize engineering resources in the Payment Solutions portion of the segment. In addition, a charge was recorded in connection with the anticipated sale of a property in St. Louis, Missouri related to a previous plant consolidation to South Carolina.

Fluid Handling

(dollars in millions)	Second Quarter 2012	Second Quarter 2011	Change	
Sales	$ 302.3	$ 286.1	$ 16.2	5.7%
Operating profit	$ 26.8	$ 36.9	$ (10.0)	(27.2%)
Restructuring charge*	$ 11.4	$		
Operating margin	8.9%	12.9%		

* Restructuring charges are included in operating profit and operating margin.

Second quarter 2012 sales increased $16.2 million, or 5.7%, including an increase in core sales of $22.9 million, or 8.0%, and a sales increase resulting from the acquisition of WTA of $7.4 million, or 2.6%, offset by unfavorable foreign currency exchange of $14.1 million, or 4.9%. The core sales performance reflected sales growth in our later, long cycle ChemPharma business as well as growth in our Crane Supply business. Operating profit in the second quarter of 2012 decreased $10.0 million, or 27.2%, reflecting restructuring charges of $11.4 million and higher manufacturing costs in certain European manufacturing operations, partially offset by higher sales. Our restructuring actions are primarily focused on our European Fluid Handling operations, to reduce costs through headcount reductions and process improvements, principally at our Krombach operations in Kreuztal, Germany. In addition, as part of a continuing cost reduction strategy, certain manufacturing operations will be transferred from facilities in Germany to Company facilities in lower cost regions.

Controls

(dollars in millions)	Second Quarter 2012	Second Quarter 2011	Change	
Sales	$ 24.7	$ 21.4	$ 3.3	15.5%
Operating profit	$ 3.8	$ 2.7	$ 1.1	39.6%
Operating margin	15.3%	12.7%		

The second quarter 2012 sales increase of $3.3 million, or 15.5%, reflected continued improvement in transportation and oil and gas related demand. Operating profit increased $1.1 million, or 39.6%, reflecting the leverage on the higher sales.

Results from Continuing Operations Six Month Periods ended June 30

All comparisons below refer to the first six months of 2012 versus the first six months of 2011, unless otherwise specified.

Year-to-date period ended June 30, 2012 compared to year-to-date period ended June 30, 2011

	Year-to-Date		Change	
(dollars in millions)	**2012**	**2011**	**$**	**%**
Net sales	$ 1,303.3	$ 1,233.5	$ 69.8	5.7
Operating profit from continuing operations	147.7	150.3	(2.6)	(1.7)
Restructuring charge *	14.7			
Operating margin from continuing operations	11.3%	12.2%		
Other income (expense):				
Interest income	0.8	0.7	0.2	
Interest expense	(13.5)	(13.1)	(0.4)	
Miscellaneous - net	(0.7)	3.3	(4.0)	
	(13.3)	(9.0)	(4.3)	
Income from continuing operations before income taxes	134.3	141.3	(6.9)	
Provision for income taxes	40.5	44.0	(3.5)	
Income from continuing operations	$ 93.8	$ 97.3	$ (3.5)	(3.6)

* Restructuring charges are included in operating profit and operating margin.

Year to date 2012 sales increased $69.8 million, or 5.7%, over the same period in 2011. Year to date 2012 core business sales increased approximately $82.7 million, or 6.7%. Year to date 2012 sales increased $10.8 million, or 0.9% due to the impact of acquisitions, net of divestitures. The impact of currency translation decreased reported sales by approximately $23.7 million, or 1.9%, as the U.S. dollar strengthened against other major currencies in the first six months of 2012 compared to the same period in 2011. Net sales related to operations outside the U.S. for the six month periods ended June 30, 2012 and 2011 were 41.0% and 40.1% of total net sales, respectively.

Operating profit was $147.7 million in the first six months of 2012, compared to $150.3 million in the comparable period of 2011. The decrease in operating profit includes restructuring charges reflecting declines in our Fluid Handling and Engineered Materials segments, partially offset by improved performance in our Merchandising Systems, Aerospace & Electronics and Controls segments. Operating profit margins were 11.3% in the first six months of 2012, compared to 12.2% in the comparable period of 2011.

Miscellaneous net decreased by $4.0 million in the first six months of 2012 compared to the same period of 2011. The decrease primarily reflected the absence of a net gain primarily associated with the sale of a building in Ontario, Canada in 2011 and the divestiture of a small product line in 2011.

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, 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 attributable to continuing operations of 30.2% for the six months ended June 30, 2012 is lower than the our effective tax rate attributable to continuing operations of 31.1% for the six months ended June 30, 2011 primarily due to lower taxes on our non-U.S. earnings partially offset by the statutory expiration of the U.S. federal research credit as of December 31, 2011.

Order backlog was $811.6 million (includes $6.3 million related to the 2011 acquisition of WTA) at June 30, 2012, compared with $778.0 million (includes $7.1 million related to the acquisition of WTA and $11.5 million related to businesses divested in June 2012) at December 31, 2011 and $825.2 million (includes $14.3 million related to businesses divested in June 2012) at June 30, 2011.

Results from Discontinued Operations Six Month Periods Ended June 30

	Six Months Ended June 30,	
(dollars in millions)	**2012**	**2011**
Income from Continuing Operations	$ 93.8	$ 97.3
Discontinued Operations:		
Income from Discontinued Operations, net of tax	2.5	1.6
Gain from Sales of Discontinued Operations, net of tax	18.3	
Discontinued Operations, net of tax	20.8	1.6
Net income before allocation to noncontrolling interests	$ 114.5	$ 98.9

For the six months ended June 30, 2012, we reported two divested businesses as discontinued operations on our Condensed Consolidated Statement of Operations. In the six months ended June 30, 2012, Azonix had sales and pre-tax profit from operations of $17.1 million and $2.5 million, respectively. In the six months ended June 30, 2012, our valve service center in Houston, Texas, had sales and pre-tax profit from operations of $8.4 million and $1.3 million, respectively.

Segment Results of Continuing Operations Six Month Periods ended June 30

The following information should be read in conjunction with our condensed consolidated financial statements and related notes. The segment results exclude the operating results of discontinued operations for all periods presented.

Aerospace & Electronics

	Year-to-Date		Change	
(dollars in millions)	**2012**	**2011**		
Sales	$ 353.8	$ 333.5	$ 20.3	6.1%
Operating profit	$ 77.0	$ 71.2	$ 5.8	8.1%
Operating margin	21.8%	21.4%		

The year to date 2012 sales increase of $20.3 million, or 6.1%, reflected sales increases of $17.0 million and $3.3 million in the Aerospace Group and Electronics Group, respectively. The segment s operating profit increased $5.8 million, or 8.1%, in the first six months of 2012 when compared to the same period in the prior year, driven by strong sales growth and margin improvement in the Aerospace Group which more than offset a decrease in the Electronics Group.

Year to date Aerospace Group sales of $220.0 million increased $17.0 million, or 8.4%, from $203.0 million in the prior year period. The increase was largely attributable to higher OEM product sales of 10.8% and higher aftermarket product sales of 5.1%. The OEM sales increase reflects higher commercial product sales associated with business jet and large aircraft manufacturers. The aftermarket sales increase reflects modernization and upgrade and repair and overhaul product sales. During the first half of 2012, sales to OEMs and sales to aftermarket customers were 59.4% and 40.6%, respectively, of total sales, compared to 58.1% and 41.9%, respectively, in the same period last year. Operating profit increased by $7.4 million in the first half of 2012, compared to the same period in the prior year, primarily due to leverage on the higher sales volume.

Year to date Electronics Group sales of $133.8 million increased $3.3 million, or 2.5%, from $130.5 million in the prior year period. The increase was driven by higher Power Solution sales offsetting a decline in Microelectronic sales. Operating profit decreased by $1.6 million in the first half of 2012, compared to the first half of 2011, primarily reflecting a less favorable product mix.

The Aerospace & Electronics segment backlog was $423.3 million at June 30, 2012, compared with $410.8 million at December 31, 2011 and $431.8 million at June 30, 2011.

Engineered Materials

	Year-to-Date		**Change**	
(dollars in millions)	**2012**	**2011**		
Sales	$ 112.6	$ 121.9	$ (9.3)	(7.6%)
Operating profit	$ 14.0	$ 19.3	$ (5.3)	(27.6%)
Restructuring charge*	$ 1.1	$		
Operating margin	12.4%	15.8%		

* Restructuring charges are included in operating profit and operating margin.

Year to date 2012 sales decreased $9.3 million, or 7.6%, reflecting lower sales to transportation-related and international customers and, to a lesser extent, RV manufacturers and building product customers. Sales to our transportation-related customers decreased by 23.8%, sales to our international customers decreased 25.6%, sales to RV manufacturers decreased 1.8% and sales to our building products customers decreased 1.2%. Operating profit in the first six months of 2012 decreased $5.3 million, or 27.6%, primarily as a result of lower sales, and to a lesser extent, restructuring charges of $1.1 million recorded in the second quarter of 2012.

The Engineered Materials segment backlog was $13.9 million at June 30, 2012, compared with $11.1 million at December 31, 2011 and $13.1 million at June 30, 2011.

Merchandising Systems

	Year-to-Date		**Change**	
(dollars in millions)	**2012**	**2011**		
Sales	$ 185.3	$ 188.9	$ (3.6)	(1.9%)
Operating profit	$ 13.8	$ 11.8	$ 2.0	17.3%
Restructuring charge*	$ 2.3	$		
Operating margin	7.5%	6.2%		

* Restructuring charges are included in operating profit and operating margin.

Year to date 2012 sales decreased $3.6 million, or 1.9%, including unfavorable foreign currency translation of $4.1 million, or 2.2%, partially offset by a core sales increase of $0.4 million, or 0.3%. We experienced lower sales in our

Payment Solutions business which was partially offset by higher sales in our Vending Solutions business. Segment operating profit for the first six months of 2012 increased $2.0 million, or 17.3%, over the same period in 2011, reflecting solid productivity gains and the absence of a non-recurring purchase accounting charge of $1.7 million associated with our Money Controls acquisition in 2011 which offset the impact of lower sales, restructuring charges recorded in the second quarter of 2012, and the costs to settle a lawsuit in the first quarter of 2012.

The Merchandising Systems segment backlog was $23.6 million at June 30, 2012, compared with $15.2 million at December 31, 2011 and $26.9 million at June 30, 2011.

Fluid Handling

	Year-to-Date		**Change**	
(dollars in millions)	**2012**	**2011**		
Sales	$ 600.5	$ 546.8	$ 53.7	9.8%
Operating profit	$ 66.0	$ 71.6	$ (5.6)	(7.8%)
Restructuring charge*	$ 11.4	$		
Operating margin	11.0%	13.1%		

* Restructuring charges are included in operating profit and operating margin.

Year to date 2012 sales increased $53.7 million, or 9.8%, including an increase in core sales of $60.2 million, or 11.0%, and a sales increase resulting from the acquisition of WTA of $11.8 million, or 2.1%, offset by unfavorable foreign currency exchange of $18.2 million, or 3.3%. The core sales performance reflected sales growth in our later, long cycle Energy and ChemPharma businesses due to strong demand in the North America chemical industry as well as generally higher sales in the remaining businesses across the segment. Operating profit in the first half of 2012 decreased $5.6 million, or 7.8%, reflecting restructuring charges of $11.4 million recorded in the second quarter of 2012, throughput inefficiencies and higher manufacturing costs in certain European manufacturing operations, partially offset by higher sales.

The Fluid Handling segment backlog was $334.7 million (includes $6.3 million related to the 2011 acquisition of WTA) at June 30, 2012, compared with $313.7 million (includes $7.1 million related to the acquisition of WTA and $1.9 million related to a divested business) at December 31, 2011 and $323.0 million (includes $1.9 million related to a divested business) at June 30, 2011.

Controls

	Year-to-Date		**Change**	
(dollars in millions)	**2012**	**2011**		
Sales	$ 51.1	$ 42.4	$ 8.7	20.6%
Operating profit	$ 7.7	$ 5.1	$ 2.6	50.3%
Operating margin	15.0%	12.0%		

The year to date 2012 sales increase of $8.7 million, or 20.6%, reflected continued improvement in transportation and oil and gas related demand. Operating profit increased $2.6 million, or 50.3%, reflecting leverage on the higher sales.

The Controls segment backlog was $16.2 million at June 30, 2012, compared with $27.1 million (includes $9.6 million related to a divested business) at December 31, 2011 and $30.3 million (includes $12.4 million related to a divested business) at June 30, 2011.