CRANE CO /DE/
Form 10-Q
August 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
Mark One:

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

For the Quarterly Period Ended June 30, 2018
OR

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

For the Transition Period from to
Commission File Number: 1-1657
CRANE CO.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: 203-363-7300
(Not Applicable)
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	o
		If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o	

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

The number of shares outstanding of the issuer's classes of common stock, as of July 31, 2018

Common stock, $1.00 Par Value – 59,598,250 shares

Crane Co.
Index
Form 10Q

		Page
Part I		
Item 1.	Financial Statements	
	Condensed Consolidated Statements of Operations	Page 1
	Condensed Consolidated Statements of Comprehensive Income	Page 2
	Condensed Consolidated Balance Sheets	Page 3
	Condensed Consolidated Statements of Cash Flows	Page 5
	Notes to Condensed Consolidated Financial Statements	Page 6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	Page 35
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	Page 49
Item 4.	Controls and Procedures	Page 49
	Part II	
Item 1.	Legal Proceedings	Page 50
Item 1A.	Risk Factors	Page 50
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	Page 50
Item 4.	Mine Safety Disclosures	Page 50
Item 5.	Other Information	Page 50
Item 6.	Exhibits	Page 51
	Signatures	Page 52

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net sales	$851.0	$702.5	$1,650.0	$1,375.9
Operating costs and expenses:				
Cost of sales	545.6	444.3	1,066.8	873.8
Selling, general and administrative	188.9	149.8	366.5	300.5
Acquisition-related and integration charges	4.1	2.6	9.2	2.6
Restructuring (gains) charges	(0.6)	—	0.2	—
Operating profit	113.0	105.8	207.3	199.0
Other income (expense):				
Interest income	0.4	0.6	1.2	1.1
Interest expense	(12.8)	(9.0)	(27.5)	(18.0)
Miscellaneous income	4.3	2.3	8.3	5.6
	(8.1)	(6.1)	(18.0)	(11.3)
Income before income taxes	104.9	99.7	189.3	187.7
Provision for income taxes	24.2	30.4	39.9	55.1
Net income before allocation to noncontrolling interests	80.7	69.3	149.4	132.6
Less: Noncontrolling interest in subsidiaries' earnings	—	0.1	—	0.3
Net income attributable to common shareholders	$80.7	$69.2	$149.4	$132.3
Earnings per share:				
Basic	$1.35	$1.16	$2.50	$2.23
Diluted	$1.32	$1.14	$2.45	$2.19
Average shares outstanding:				
Basic	59.7	59.5	59.7	59.4
Diluted	61.1	60.5	61.0	60.4
Dividends per share	$0.35	$0.33	$0.70	$0.66

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income before allocation to noncontrolling interests	$80.7	$69.3	$149.4	$132.6
Other comprehensive (loss) income, net of tax				
Currency translation adjustment	(46.9)	36.4	(21.5)	58.6
Changes in pension and postretirement plan assets and benefit obligation, net of tax	4.5	2.3	14.1	4.6
Other comprehensive (loss) income, net of tax	(42.4)	38.7	(7.4)	63.2
Comprehensive income before allocation to noncontrolling interests	38.3	108.0	142.0	195.8
Less: Noncontrolling interests in comprehensive (loss) income	(0.2)	0.3	(0.2)	0.7
Comprehensive income attributable to common shareholders	$38.5	$107.7	$142.2	$195.1

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$318.2	$ 706.2
Accounts receivable, net	542.0	418.4
Current insurance receivable - asbestos	25.0	25.0
Inventories, net:		
Finished goods	121.2	101.1
Finished parts and subassemblies	50.2	46.1
Work in process	64.1	51.6
Raw materials	176.0	150.5
Inventories, net	411.5	349.3
Other current assets	77.1	19.6
Total current assets	1,373.8	1,518.5
Property, plant and equipment:		
Cost	1,144.2	839.4
Less: accumulated depreciation	562.6	557.0
Property, plant and equipment, net	581.6	282.4
Long-term insurance receivable - asbestos	79.1	90.1
Long-term deferred tax assets	32.2	104.2
Other assets	116.7	114.6
Intangible assets, net	504.6	276.8
Goodwill	1,432.5	1,206.9
Total assets	$4,120.5	$ 3,593.5

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2018	December 31, 2017
Liabilities and equity		
Current liabilities:		
Short-term borrowings and current maturities of long-term debt	$ 171.4	$ 249.4
Accounts payable	274.6	247.4
Current asbestos liability	85.0	85.0
Accrued liabilities	328.0	252.1
U.S. and foreign taxes on income	2.3	3.6
Total current liabilities	861.3	837.5
Long-term debt	937.1	494.1
Accrued pension and postretirement benefits	253.9	240.5
Long-term deferred tax liability	44.3	44.9
Long-term asbestos liability	474.4	520.3
Other liabilities	102.9	107.7
Total liabilities	2,673.9	2,245.0
Commitments and contingencies (Note 12)		
Equity:		
Preferred shares, par value $0.01; 5,000,000 shares authorized	—	—
Common shares, par value $1.00; 200,000,000 shares authorized, 72,426,139 shares issued	72.4	72.4
Capital surplus	293.3	291.7
Retained earnings	1,927.6	1,813.3
Accumulated other comprehensive loss	(387.3)	(380.1)
Treasury stock	(462.5)	(452.1)
Total shareholders' equity	1,443.5	1,345.2
Noncontrolling interests	3.1	3.3
Total equity	1,446.6	1,348.5
Total liabilities and equity	$ 4,120.5	$ 3,593.5
Share data:		
Common shares issued	72,426,139	72,426,139
Less: Common shares held in treasury	(12,849,280)	(13,014,503)
Common shares outstanding	59,576,859	59,411,636

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Net income attributable to common shareholders	$149.4	$132.3
Noncontrolling interests in subsidiaries' earnings	—	0.3
Net income before allocation to noncontrolling interests	149.4	132.6
Depreciation and amortization	56.3	35.5
Stock-based compensation expense	11.2	11.1
Defined benefit plans and postretirement credit	(7.7)	(4.2)
Deferred income taxes	11.0	10.0
Cash used for operating working capital	(45.8)	(83.1)
Defined benefit plans and postretirement contributions	(16.5)	(3.8)
Environmental payments, net of reimbursements	(4.2)	(2.7)
Asbestos related payments, net of insurance recoveries	(34.9)	(28.2)
Other	12.6	3.2
Total provided by operating activities	131.4	70.4
Investing activities:		
Capital expenditures	(44.0)	(20.8)
Proceeds from disposition of capital assets	0.5	—
Payment for acquisition - net of cash acquired	(672.3)	(54.1)
Total used for investing activities	(715.8)	(74.9)
Financing activities:		
Dividends paid	(41.8)	(39.3)
Reacquisition of shares on open market	(25.0)	—
Stock options exercised - net of shares reacquired	5.0	17.8
Debt issuance costs	(5.4)	—
Repayment of long-term debt	(450.0)	—
Repayment of short-term debt	(100.0)	—
Proceeds from issuance of long-term debt	550.0	—
Proceeds from issuance of short-term debt	100.0	—
Proceeds from issuance of commercial paper	171.4	—
Total provided by (used for) financing activities	204.2	(21.5)
Effect of exchange rates on cash and cash equivalents	(7.8)	25.6
Decrease in cash and cash equivalents	(388.0)	(0.4)
Cash and cash equivalents at beginning of period	706.2	509.7
Cash and cash equivalents at end of period	$318.2	$509.3
Detail of cash used for operating working capital:		
Accounts receivable	$(17.3)	$(25.8)
Inventories	(31.8)	(13.3)
Other current assets	(11.8)	(0.7)
Accounts payable	(22.1)	(21.0)
Accrued liabilities	37.8	(27.5)
U.S. and foreign taxes on income	(0.6)	5.2
Total	$(45.8)	$(83.1)

Supplemental disclosure of cash flow information:		
Interest paid	$21.9	$17.7
Income taxes paid	$29.5	$39.9

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and the instructions to Form 10-Q and, therefore, reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. These interim condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Recent Accounting Pronouncements - Not Yet Adopted

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the Financial Accounting Standard Board ("FASB") issued amended guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("TCJA"). This amended guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating whether to adopt the amended guidance and, if so, the impact that it will have on its consolidated financial statements.

Measurement of Credit Losses on Financial Instruments

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

Leases

In February 2016, the FASB issued amended guidance on accounting for leases. The amended guidance requires the recognition of a right-of-use asset and a lease liability for all leases by lessees with the exception of short-term leases and amends disclosure requirements associated with leasing arrangements. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018 using a modified retrospective transition approach. The Company expects to adopt this standard as of January 1, 2019. The Company has formed an implementation team to evaluate the effect of the new guidance on its financial statements and related disclosures and is in the process of implementing a solution to facilitate the development of business processes and controls around leases to meet the new accounting and disclosure requirements upon adoption in the first quarter of 2019.

Recent Accounting Pronouncements - Adopted

Revenue Recognition

In May 2014, the FASB issued new accounting guidance related to revenue recognition - Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" ("the new standard" or "ASC 606"). The new standard replaced all current U.S. GAAP guidance on revenue recognition and eliminates all industry-specific guidance. ASC 606 provides a unified model to determine when and how revenue is recognized. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method. The Company elected to use the practical expedient and applied ASC 606 only to contracts that were not completed as of January 1, 2018.

Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts continue to be reported under ASC Topic 605, “Revenue Recognition”. The Company recognized the cumulative effect of initially applying ASC 606 as a net addition of $6.7 million to the opening balance of retained earnings at January 1, 2018. Upon adoption, the Company established a contract asset of $28.1 million ($22.1 million net of advanced payments received for the same contracts) and a deferred tax liability of $2.3 million and reduced inventories by $19.1 million at January 1, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accounting change relates primarily to products that are customized or products sold directly to the U.S. government or indirectly to the U.S. government through subcontracts. Revenue for such products is now recognized over time because control is transferred continuously to customers, as the contract progresses. To measure progress in these contracts, the Company applies a cost-to-cost methodology which serves as the basis to determine the amount of revenue to recognize. Prior to the adoption of ASC 606, the Company recognized revenue for these products at a point in time - either upon shipment or delivery - based on the specific shipping terms in the contract. For the three and six months ended June 30, 2018, the impact to revenues was an increase of $6.2 million and $18.6 million, respectively, and the impact to cost of sales was an increase of $2.4 million and $12.1 million, respectively, as a result of applying ASC 606. As of June 30, 2018, the effect of this change decreased inventories by $40.1 million and increased other current assets by $53.3 million due to the recognition of contract assets for unbilled amounts related to contracts for customized products or contracts for products sold directly to the U.S. government or indirectly to the U.S. government through subcontracts. Advanced payments from customers represent contract liabilities as defined by ASC 606. As such, in Note 11, “Accrued liabilities”, the line “Advanced payments from customers” is now “Contract liabilities”.

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

In March 2017, the FASB issued amended guidance related to the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amended guidance requires the disaggregation of the service cost component from the other components of net periodic benefit costs and present it with other current compensation costs for related employees in the income statement, and present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. This amended guidance was effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted the guidance on January 1, 2018 using the retrospective method. The Company applied the practical expedient that allows the use of the pension and postretirement benefit plan disclosures for the prior comparative periods to estimate amounts for retrospective application. The adoption of this guidance resulted in a reclassification of the non-service cost components of net benefit cost from cost of sales and selling, general and administrative expenses to miscellaneous income of $5.2 million and $3.3 million for the three months ended June 30, 2018 and 2017, respectively, and $10.4 million and $6.7 million for the six months ended June 30, 2018 and 2017, respectively. The adoption of this guidance did not impact consolidated net income, the consolidated balance sheets or consolidated statements of cash flows.

Restricted Cash

In November 2016, the FASB issued amended guidance to address diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. The amended guidance requires restricted cash and restricted cash equivalents to be classified in the statements of cash flows as cash and cash equivalents. This amended guidance was effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, using a retrospective transition method. The Company adopted the guidance on January 1, 2018. The adoption of this guidance did not have an impact on the Company’s consolidated statements of cash flows.

Income Taxes on Intra-Entity Transfers of Assets

In October 2016, the FASB issued amended guidance related to the recognition of income taxes resulting from intra-entity transfers of assets other than inventory. The guidance requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. This amended guidance was effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, using a modified retrospective approach, with the cumulative effect recognized through retained earnings at the date of adoption. The Company adopted the guidance on January 1, 2018. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

Cash Flow Simplification

In August 2016, the FASB issued amended guidance that clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The amended guidance was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the guidance on January 1, 2018. The adoption of this guidance did not have an impact on the Company’s consolidated statements of cash flows.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued amended guidance on the classification and measurement of financial instruments, including significant revisions in accounting related to the classification and measurement of investments in equity securities and presentation of certain fair value changes for financial liabilities when the fair value option is elected. The amended guidance requires equity securities to be measured at fair value with changes in fair value recognized through net earnings and amends

certain disclosure requirements associated with the fair value of financial instruments. The Company adopted the guidance on January 1, 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Other Recently Issued Pronouncements

On December 22, 2017, the U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 118 ("SAB 118") which allows registrants that do not have the necessary information available, prepared, or analyzed to complete the accounting for the TCJA to report provisional amounts in their SEC filings based on reasonable estimates. Further, it provides a one year measurement period for registrants to complete their accounting for the TCJA. If provisional amounts are recorded, SAB 118 requires registrants to include additional qualitative and quantitative disclosures in their SEC filings. Further, SAB 118 requires companies to disclose the nature and amount of measurement period adjustments recognized during the reporting period and the effect of measurement period adjustments on the effective tax rate.

The TCJA includes provisions effective beginning on January 1, 2018, which include a tax on 50% of global intangible low-taxed income ("GILTI"), which is income determined to be in excess of a specified routine rate of return, as well as a base erosion and anti-abuse tax ("BEAT") aimed at preventing the erosion of the U.S. tax base. The Company continues to review GILTI and BEAT provisions and expects further guidance on the application of these provisions. The Company has not yet adopted an accounting policy as to whether the Company will treat taxes on GILTI as period costs or whether the Company will recognize deferred tax assets and liabilities when basis differences exist that are expected to affect the amount of GILTI inclusion upon reversal.

Included in the Company's tax provision for the three and six month periods ended June 30, 2018 are measurement period adjustments related to the TCJA. Further detail and disclosures are discussed in Note 8, "Income Taxes".

Note 2 - Significant Accounting Policies Update

The Company's significant accounting policies are detailed in "Note 1 - Nature of Operations and Significant Accounting Policies" of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Significant changes to the Company's accounting policies as a result of adopting ASC 606 are discussed below:

Revenue Recognition. Revenue is recognized when control of the promised goods or services in a contract transfers to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company accounts for a contract when both parties have approved and committed to the terms, each party's rights and payment obligations under the contract are identifiable, the contract has commercial substance, and it is probable that the Company will collect substantially all of the consideration. When shipping and handling activities are performed after the customer obtains control of product, the Company elects to account for shipping and handling as activities to fulfill the promise to transfer the product. In determining the transaction price of a contract, the Company exercises judgment to determine the total transaction price when it includes estimates of variable consideration, such as rebates and milestone payments. The Company generally estimates variable consideration using the expected value method and considers all available information (historical, current, and forecasted) in estimating these amounts. Variable consideration is only included in the transaction price to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company elects to exclude from the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer.

The Company primarily generates revenue through the manufacture and sale of engineered industrial products. Each product within a contract generally represents a separate performance obligation, as the Company does not provide a significant service of integrating or installing the products, the products do not customize each other, and the products can function independently of each other. Control of products generally transfers to the customer at a point in time, as the customer does not control the products as they are manufactured. The Company exercises judgment and considers the timing of right to payment, transfer of risk and rewards, transfer of title, transfer of physical possession, and

customer acceptance when determining when control transfers to the customer. As a result, revenue from the sale of products is generally recognized at a point in time - either upon shipment or delivery - based on the specific shipping terms in the contract.

When products are customized or products are sold directly to the U.S. government or indirectly to the U.S. government through subcontracts, revenue is recognized over time because control is transferred continuously to customers, as the contract progresses. The Company exercises judgment to determine whether the products have an alternative use to the Company. When an alternative use to the Company does not exist for these products and the Company is entitled to payment for performance completed to date which includes a reasonable profit margin, revenue is recognized over time. When a contract with the U.S. government or subcontract for the U.S. government contains clauses indicating that the U.S. government owns any work-in-progress as the contracted product is being built, revenue is recognized over time. The measure of progress applied by the Company is the cost-to-cost method as this provides the most faithful depiction of the pattern of transfer of

control. Under this method, the Company measures progress by comparing costs incurred to date, to the total estimated costs to provide the performance obligation. This method effectively reflects its progress toward completion, as this methodology includes any work-in-process amounts as part of the measure of progress. Costs incurred represent work performed, which corresponds with, and thereby depicts, the transfer of control to the customer. Total revenue recognized and cost estimates are updated on a monthly basis.

When there are multiple performance obligations in a single contract, the total transaction price is allocated to each performance obligation based on their relative standalone selling prices. The Company maximizes the use of observable data inputs and considers all information (including market conditions, segment-specific factors, and information about the customer or class of customer) that is reasonably available. The standalone selling price for the Company’s products and services is generally determined using an observable list price, which differs by class of customer.

The transaction price allocated to remaining performance obligations represents the transaction price of firm orders which have not yet been fulfilled, which the Company also refers to as total backlog. As of June 30, 2018, backlog was $1,097 million. The Company expects to recognize approximately 83% of its remaining performance obligations as revenue in 2018, an additional 13% by 2019 and the balance thereafter.

Revenue recognized from performance obligations satisfied in previous periods (for example, due to changes in the transaction price or estimates), was not material.

Payment for products is due within a limited time period after shipment or delivery, and the Company does not offer extended payment terms. Payment is typically due within 30-90 calendar days of the respective invoice dates. Customers generally do not make large upfront payments. Any advanced payments received do not provide the Company with a significant benefit of financing, as the payments are meant to secure materials used to fulfill the contract, as opposed to providing the Company with a significant financing benefit.

When an unconditional right to consideration exists, the Company records these amounts as receivables. When amounts are dependent on factors other than the passage of time in order for payment from a customer to become due, the Company records a contract asset. Contract assets represent unbilled amounts that typically arise from contracts for customized products or contracts for products sold directly to the U.S. government or indirectly to the U.S. government through subcontracts, where revenue recognized using the cost-to-cost method exceeds the amount billed to the customer. Contract assets are assessed for impairment and recorded at their net realizable value. Contract liabilities represent advance payments from customers. Revenue related to contract liabilities is recognized when control is transferred to the customer. See Note 9, “Contract Assets and Contract Liabilities” for further details.

The Company pays sales commissions related to certain contracts, which qualify as incremental costs of obtaining a contract. However, the sales commissions generally relate to contracts for products or services satisfied at a point in time or over a period of time less than one year. As a result, the Company applies the practical expedient that allows an entity to recognize incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that would have been recognized is one year or less.

See Note 5, “Segment Results” for disclosures related to disaggregation of revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Acquisitions

Acquisitions are accounted for in accordance with ASC Topic 805, “Business Combinations” (“ASC 805”). 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 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.

Crane Currency Acquisition

On January 10, 2018, the Company completed the acquisition of Crane & Co., Inc. (“Crane Currency”). The base purchase price of the acquisition was $800 million on a cash-free, debt-free basis, subject to a later adjustment reflecting Crane Currency’s net working capital, cash, the assumption by the Company of certain debt-like items, and Crane Currency’s transaction expenses. The amount paid, net of cash acquired, was $672.3 million. To finance the acquisition, the Company issued commercial paper under its commercial paper program and utilized proceeds from term loans that it issued at the closing of the acquisition, as well as available cash on hand. At the closing, the transitory subsidiary of Crane Co. merged with and into Crane Currency, with Crane Currency surviving as a wholly owned subsidiary of Crane Co.

Crane Currency is a supplier of banknotes and highly engineered banknote security features which complement the existing portfolio of currency and payment products within the Payment & Merchandising Technologies segment. As such, Crane Currency is being integrated into the Payment & Merchandising Technologies segment. 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 product offering within the currency and payment markets. Goodwill from this acquisition is not deductible for tax purposes.

Allocation of Consideration Transferred to Net Assets Acquired

The following amounts represent the preliminary determination of the fair value of identifiable assets acquired and liabilities assumed from the Company's acquisition of Crane Currency. The final determination of the fair value of certain assets and liabilities will be completed within the one year measurement period as required by ASC 805. The size and breadth of the Crane Currency acquisition will necessitate the use of this measurement period to adequately analyze and assess a number of the factors used in establishing the asset and liability fair values as of the acquisition date, including the significant contractual and operational factors underlying the customer relationship intangible asset and the assumptions underpinning the related tax impacts of any changes made. Any potential adjustments made could be material in relation to the preliminary values presented below:

Preliminary net assets acquired (in millions)	
Total current assets	$201.8
Property, plant and equipment	298.9
Other assets	4.3
Intangible assets	250.8
Goodwill	231.0
Total assets acquired	$986.8
Assumed liabilities	314.5
Net assets acquired	$672.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amounts allocated to acquired intangible assets, and their associated weighted-average useful lives which were determined based on the period in which the assets are expected to contribute directly or indirectly to the Company's future cash flows, consist of the following:

Intangible Assets (dollars in millions)	Intangible Fair Value	Weighted Average Life
Trademarks/trade names	$ 42.0	indefinite
Customer relationships	134.3	23.3
Product technology	74.0	8.4
Backlog	0.5	1.0
Total acquired intangible assets	$ 250.8	

In order to allocate the consideration transferred for Crane Currency, the fair values of all identifiable assets and liabilities must be established. For accounting and financial reporting purposes, fair value is defined under ASC Topic 820, "Fair Value Measurement and Disclosure" as the price that would be received upon sale of an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market participants are assumed to be buyers and sellers in the principal (most advantageous) market for the asset or liability. Additionally, fair value measurements for an asset assume the highest and best use of that asset by market participants. Use of different estimates and judgments could yield different results.

The fair values of the trademark and trade name intangible assets were determined by using an "income approach", specifically the relief-from-royalty approach, which is a commonly accepted valuation approach. This approach is based on the assumption that in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of this asset. Therefore, a portion of Crane Currency's earnings, equal to the after-tax royalty that would have been paid for the use of the asset, can be attributed to the firm's ownership. The trademark and trade names, Crane Currency and Crane are assigned an indefinite life and therefore will not be amortized.

The fair values of the product technology intangible assets were also determined by the relief-from-royalty approach. Similarly, this approach is based on the assumption that in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of the technology. Therefore, a portion of Crane Currency's earnings, equal to the after-tax royalty that would have been paid for the use of the technology, can be attributed to the firm's ownership of the technology. The technology assets are being amortized on a straight-line basis (which approximates the economic pattern of benefits) over the estimated economic life of seven to 11 years.

The fair values of the customer relationships and backlog intangible assets were determined by using an "income approach" which is a commonly accepted valuation approach. Under this approach, the net earnings attributable to the asset or liability being measured are isolated using the discounted projected net cash flows. These projected cash flows are isolated from the projected cash flows of the combined asset group over the remaining economic life of the intangible asset or liability being measured. Both the amount and the duration of the cash flows are considered from a market participant perspective. The Company's estimates of market participant net cash flows considered historical and projected pricing, operational performance including market participant synergies, aftermarket retention, product life cycles, material and labor pricing, and other relevant customer, contractual and market factors. Where appropriate, the net cash flows were adjusted to reflect the potential attrition of existing customers in the future, as existing customers are a "wasting" asset and are expected to decline over time. The attrition-adjusted future cash flows are then discounted to present value using an appropriate discount rate. The customer relationship is being amortized on a straight-line basis (which approximates the economic pattern of benefits) over the estimated economic life of 19 to 24 years.

Supplemental Pro Forma Data

Crane Currency's results of operations have been included in the Company's financial statements for the period subsequent to the completion of the acquisition on January 10, 2018. The pro forma impact for the stub period (January 1, 2018 through January 9, 2018) is not material. Crane Currency contributed sales of $221.4 million resulting in an operating profit of approximately $7.1 million for the period from the completion of the acquisition

through June 30, 2018. The following unaudited pro forma combined information assumes that the acquisition was completed on January 1, 2017. The unaudited pro forma consolidated results of operations are provided for illustrative purposes only and are not indicative of the Company's actual consolidated results of operations or consolidated financial position. The unaudited pro forma results of operations do not reflect any operating efficiencies or cost savings which resulted from the acquisition of Crane Currency or may be realized in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except per share data)	Three Months Ended	Six Months Ended
	June 30, 2017	
Net sales	$824.8	$1,600.5
Net income attributable to common shareholders	$69.3	$126.3
Basic earnings per share	$1.17	$2.13
Diluted earnings per share	$1.15	$2.09

The unaudited supplemental pro forma data above includes adjustments for inventory step up, depreciation and amortization related to acquired Crane Currency property, plant and equipment and intangible assets and interest expense related to financing directly associated with the acquisition.

Westlock Acquisition

In April 2017, the Company acquired all of the outstanding stock of Westlock Controls (“Westlock”) from Emerson Electric Co. for cash consideration of $40 million. Westlock is a global leader in the manufacturing and sale of switchboxes, position transmitters and other solutions for networking, monitoring and controlling process valves, a new product space which is closely adjacent to the Company’s existing operations in its Fluid Handling segment. With primary operations located in Saddle Brook, New Jersey, Westlock had 2016 sales of approximately $32 million. Allocation of the purchase price resulted in the Company recording goodwill of $22.6 million. This acquisition has been integrated into the Company’s Fluid Handling segment, and the pro forma impact is not material.

Microtronic Acquisition

In June 2017, the Company acquired all of the outstanding stock of Microtronic AG (“Microtronic”) for cash consideration of approximately $18 million. With operations in Oensingen, Switzerland, Microtronic develops and manufactures closed electronic payment systems, primarily for the European vending market, strengthening the Company’s portfolio of cashless solutions. Allocation of the purchase price resulted in the Company recording goodwill of $8.9 million. This acquisition has been integrated into the Company’s Payment & Merchandising Technologies segment, and the pro forma impact is not material.

Acquisition-Related Costs

Acquisition-related costs are being expensed as incurred. For the three months ended June 30, 2018 and 2017, the Company recorded $4.1 million and $2.6 million, respectively, of integration and transaction costs in the Condensed Consolidated Statements of Operations. For the six months ended June 30, 2018 and 2017, the Company recorded $9.2 million and $2.6 million, respectively, of integration and transaction costs in the Condensed Consolidated Statements of Operations. For the three and six months ended June 30, 2018, the Company also recorded $1.9 million and $8.5 million, respectively, of inventory step-up and backlog amortization within “Cost of sales” in the Condensed Consolidated Statements of Operations

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 - Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in millions, except per share data)	2018	2017	2018	2017
Net income attributable to common shareholders	$80.7	$69.2	$149.4	$132.3
Average basic shares outstanding	59.7	59.5	59.7	59.4
Effect of dilutive stock options	1.4	1.0	1.3	1.0
Average diluted shares outstanding	61.1	60.5	61.0	60.4
Earnings per basic share	$1.35	$1.16	$2.50	$2.23
Earnings per diluted share	$1.32	$1.14	$2.45	$2.19

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. For the three month periods ended June 30, 2018 and 2017, the number of stock options excluded from the computation was 0.4 million and 0.6 million, respectively. For each of the six month periods ended June 30, 2018 and 2017, the number of stock options excluded from the computation was 0.4 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Segment Results

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

For the three and six months ended June 30, 2018, operating profit includes acquisition-related and integration charges, acquisition-related inventory and backlog amortization, restructuring (gains) charges, and a change in presentation of pension and postretirement costs. For the three and six months ended June 30, 2017, operating profit includes acquisition-related and integration charges, acquisition-related inventory and backlog amortization, and a change in presentation of pension and postretirement costs.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in millions)	2018	2017	2018	2017
Net sales				
Fluid Handling	$276.9	$263.8	$543.5	$503.4
Payment & Merchandising Technologies	324.3	198.2	616.7	393.7
Aerospace & Electronics	187.2	171.1	357.5	334.5
Engineered Materials	62.6	69.4	132.3	144.3
Total	$851.0	$702.5	$1,650.0	$1,375.9
Operating profit (loss)				
Fluid Handling	$29.5	$29.1	$57.6	$53.5
Payment & Merchandising Technologies	46.1	41.9	82.6	80.3
Aerospace & Electronics	43.3	37.6	77.5	69.4
Engineered Materials	11.2	13.3	23.7	27.2
Corporate	(17.1)	(16.1)	(34.1)	(31.4)
Total	113.0	105.8	207.3	199.0
Interest income	0.4	0.6	1.2	1.1
Interest expense	(12.8)	(9.0)	(27.5)	(18.0)
Miscellaneous income	4.3	2.3	8.3	5.6
Income before income taxes	$104.9	$99.7	$189.3	$187.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions)	June 30, 2018	December 31, 2017
Assets		
Fluid Handling	$875.2	$941.6
Payment & Merchandising Technologies	2,161.6	1,215.7
Aerospace & Electronics	584.7	573.0
Engineered Materials	224.1	220.8
Corporate	274.9	642.4
Total	$4,120.5	$3,593.5

(in millions)	June 30, 2018	December 31, 2017
Goodwill		
Fluid Handling	$243.0	$245.4
Payment & Merchandising Technologies	815.8	587.7
Aerospace & Electronics	202.4	202.4
Engineered Materials	171.3	171.4
Total	$1,432.5	$1,206.9

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in millions)	2018	2017	2018	2017
Fluid Handling				
Process Valves and Related Products	$175.4	$165.8	$340.4	$314.5
Commercial Valves	79.2	75.0	159.7	144.5
Other Products	22.3	23.0	43.4	44.4
Total Fluid Handling	$276.9	$263.8	$543.5	$503.4
Payment & Merchandising Technologies				
Payment Acceptance and Dispensing Products	$155.3	$148.6	$300.7	$294.5
Banknotes and Security Products	121.6	—	221.4	—
Merchandising Equipment	47.4	49.6	94.6	99.2
Total Payment & Merchandising Technologies	$324.3	$198.2	$616.7	$393.7
Aerospace & Electronics				
Commercial Original Equipment	$86.2	$87.3	$170.8	$169.8
Military and Other Original Equipment	48.7	40.9	90.7	78.9
Commercial Aftermarket Products	37.5	31.6	70.2	63.7
Military Aftermarket Products	14.8	11.3	25.8	22.1
Total Aerospace & Electronics	$187.2	$171.1	$357.5	$334.5
Engineered Materials				
FRP - Recreational Vehicles	$31.2	$38.1	$68.5	$79.7

FRP - Building Products	23.4	23.9	47.2	48.4
FRP - Transportation	8.0	7.4	16.6	16.2
Total Engineered Materials	$62.6	$69.4	$132.3	$144.3
Total net sales	$851.0	$702.5	$1,650.0	$1,375.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Changes in Equity and Accumulated Other Comprehensive Loss

A summary of changes in equity for the six months ended June 30, 2018 and 2017 is provided below:

	Six Months Ended June 30,					
	2018			2017		
(in millions)	Total Shareholders' Equity	Noncontrolling Interests	Total Equity	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, beginning of period	$1,345.2	$ 3.3	$ 1,348.5	$1,133.8	$ 11.9	$ 1,145.7
Dividends	(41.8)	—	(41.8)	(39.3)	—	(39.3)
Reacquisition on open market	(25.0)	—	(25.0)	—	—	—
Exercise of stock options, net of shares reacquired	5.0	—	5.0	17.8	—	17.8
Stock-based compensation expense	11.2	—	11.2	11.1	—	11.1
Cumulative effect of adoption of ASC 606	6.7	—	6.7	—	—	—
Net income	149.4	—	149.4	132.3	0.3	132.6
Other comprehensive (loss) income	(7.2)	(0.2)	(7.4)	62.8	0.4	63.2
Comprehensive income (loss)	142.2	(0.2)	142.0	195.1	0.7	195.8
Balance, end of period	$1,443.5	$ 3.1	$ 1,446.6	$1,318.5	$ 12.6	$ 1,331.1

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

(in millions)	Defined Benefit Pension and Postretirement Items*	Currency Translation Adjustment	Total
Balance as of December 31, 2017	$ (292.1)	$ (88.0)	$(380.1)
Other comprehensive income (loss) before reclassifications	9.3	(21.3)	(12.0)
Amounts reclassified from accumulated other comprehensive loss	4.8	—	4.8
Net current-period other comprehensive income (loss)	14.1	(21.3)	(7.2)
Balance as of June 30, 2018	$ (278.0)	$ (109.3)	$(387.3)

* Net of tax benefit of $114.4 million and $115.8 million as of June 30, 2018 and December 31, 2017, respectively.

The table below illustrates the amounts reclassified out of each component of accumulated other comprehensive loss for the three and six month periods ended June 30, 2018 and 2017. Amortization of pension and postretirement components have been recorded within “Miscellaneous income” on the Condensed Consolidated Statements of Operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Amortization of pension items:				
Prior-service costs	$(0.1)	$(0.1)	$(0.3)	$(0.2)
Net loss	3.6	3.5	7.1	7.0
Amortization of postretirement items:				
Prior-service costs	—	(0.1)	—	(0.1)
Net gain	(0.3)	(0.1)	(0.6)	(0.2)

Total before tax	$3.2	$3.2	$6.2	$6.5
Tax impact	0.8	1.0	1.4	2.0
Total reclassifications for the period	$2.4	$2.2	$4.8	$4.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Defined Benefit and Postretirement Benefits

Pension Plans

In the United States, the Company sponsors a defined benefit pension plan that covered approximately 17% of all U.S. employees as of December 31, 2017. Additionally, a number of the Company's non-U.S. subsidiaries sponsor defined benefit pension plans that covered approximately 12% of all non-U.S. employees as of December 31, 2017. The benefits are typically based upon years of service and compensation. These plans are funded with trustees in respect of past and current service. As a result of the acquisition of Crane Currency in January 2018, the Company also has a defined benefit pension plan that covers substantially all former full-time U.S. employees of Crane Currency hired on or before June 30, 2007. Employees of Crane Currency hired after June 30, 2007 were not eligible to participate in the defined benefit pension plan. At the date of acquisition, based upon a preliminary valuation, the underfunded status of the plan was $13.8 million representing a benefit obligation of $48.7 million less the fair value of plan assets of $34.9 million.

Postretirement Plans

Postretirement health care and life insurance benefits are provided for certain employees hired before January 1, 1990, who meet minimum age and service requirements. As a result of the acquisition of Crane Currency, the Company also has postretirement medical, Medicare supplement, and life insurance benefits that cover substantially all former full-time U.S. employees of Crane Currency.

Supplemental Plan

As a result of the acquisition of Crane Currency, the Company also has a non-qualified Supplemental Executive Retirement Plan ("SERP"). The SERP, which is not funded, is intended to provide retirement benefits for certain executive officers who were formerly employees of Crane Currency. Benefit amounts are based upon years of service and compensation of the participating employees.

For all plans, the components of net periodic (benefit) cost for the three months ended June 30, 2018 and 2017 are as follows:

	Pension		Postretirement		SERP	
(in millions)	2018	2017	2018	2017	2018	2017
Service cost	$1.5	$1.2	$0.1	$—	$—	$ —
Interest cost	7.5	7.2	0.2	0.1	0.1	—
Expected return on plan assets	(16.4)	(13.9)	—	—	—	—
Amortization of prior service cost	(0.1)	(0.1)	—	(0.1)	—	—
Amortization of net loss (gain)	3.6	3.5	(0.3)	(0.1)	—	—
Net periodic (benefit) cost	$(3.9)	$(2.1)	$—	$(0.1)	$0.1	$ —

For all plans, the components of net periodic (benefit) cost for the six months ended June 30, 2018 and 2017 are as follows:

	Pension		Postretirement		SERP	
(in millions)	2018	2017	2018	2017	2018	2017
Service cost	$3.0	$2.4	$0.1	$—	$—	$ —
Interest cost	15.0	14.4	0.6	0.2	0.1	—
Expected return on plan assets	(32.7)	(27.8)	—	—	—	—
Amortization of prior service cost	(0.3)	(0.2)	—	(0.1)	—	—
Amortization of net loss (gain)	7.1	7.0	(0.6)	(0.2)	—	—
Net periodic (benefit) cost	$(7.9)	$(4.2)	$0.1	$(0.1)	$0.1	$ —

Effective January 1, 2018, the components of net periodic (benefit) cost other than the service cost component are included in "Miscellaneous income" in the Condensed Consolidated Statements of Operations. Service cost is recorded within "Cost of sales" and "Selling, general and administrative" in the Condensed Consolidated Statements of Operations.

See Note 1, Recent Accounting Pronouncements - Adopted" under "Basis of Presentation" for further details.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company expects, based on current actuarial calculations, to contribute the following to its pension plans, postretirement plans and SERP:

(in millions)	Pension	Postretirement	SERP
Expected contributions in 2018	$ 27.0	$ 2.4	$ 0.2
Amounts contributed during the six months ended June 30, 2018	$ 15.5	$ 0.9	$ 0.1

Note 8 - Income Taxes

Impact of the Tax Cuts and Jobs Act

Enacted on December 22, 2017, the TCJA significantly changed U.S. corporate income tax law by reducing federal statutory tax rates from 35% to 21%, instituting a territorial tax system that provides a 100% exemption on future repatriations from certain foreign subsidiaries, and imposing a one-time transition tax on previously deferred non-U.S. earnings. In accordance with SAB 118, the Company recorded a one-time charge of $87 million in the fourth quarter of 2017 primarily consisting of:

- A re-measurement of the Company's net deferred tax assets due to a reduction in U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, totaling $75 million; and
- A one-time mandatory transition tax on previously deferred earnings of foreign subsidiaries and a reassessment of the Company's assertion regarding re-investment of its non-U.S. subsidiaries' undistributed earnings, together totaling $12 million.

The Company considered the entire $87 million charge to be a provisional estimate as of December 31, 2017.

During the three and six months ended June 30, 2018, the only change that the Company recorded to its $87 million provisional estimate related to tax associated with its non-U.S. subsidiaries' undistributed earnings in the amount of $0.8 million and $0.4 million, respectively. These benefits decreased the Company’s effective tax rate by 80 and 20 basis points for the three and six months ended June 30, 2018, respectively.

Since the enactment of the TCJA, the U.S. Department of the Treasury and the Internal Revenue Service (“IRS”) have issued limited interpretive guidance on the new law. Some U.S. states have issued guidance on particular aspects of the TCJA, while other states have issued no guidance. During the remainder of 2018, the Company will analyze any new pronouncements, and gather any outstanding information required in order to finalize its calculation of the effect of the TCJA. The Company will record any changes to its provisional estimate in the quarter in which it completes its analysis, but no later than December 31, 2018.

Effective Tax Rates

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

The Company’s effective tax rates are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Effective Tax Rate	23.1%	30.5%	21.1%	29.4%

The Company’s effective tax rates for both the three and six months ended June 30, 2018 are lower than the prior year’s comparable periods primarily due to the TCJA, specifically, the reduction in the statutory U.S. federal tax rate, partially offset by:

- The elimination of certain deductions
- U.S. taxes related to non-U.S. earnings
- Earnings in jurisdictions with statutory tax rates higher than the U.S.

While the Company's effective tax rate for the three months ended June 30, 2018 is higher than the statutory U.S. federal tax rate of 21%, the effective tax rate for the six months ended June 30, 2018 is approximately equal to the

statutory U.S. federal tax rate of 21%. The higher rate for the three months ended June 30, 2018 is primarily due to U.S. state taxes, taxes on certain non-U.S. earnings and certain expenses that are statutorily non-deductible for income tax purposes. These items are partially offset by excess tax benefits associated with share-based payments and the U.S. federal research credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unrecognized Tax Benefits
During the three and six months ended June 30, 2018, the Company's gross unrecognized tax benefits, excluding interest and penalties, increased by $0.7 million and $0.8 million respectively, primarily as a result of tax positions taken in both the current and prior periods, partially offset by reductions resulting from the expiration of statutes of limitations.
During the three and six months ended June 30, 2018, the total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate increased by $1.0 million and $1.4 million, respectively.
The Company recognizes interest and penalties related to unrecognized tax benefits as a component of its income tax expense. During the three and six months ended June 30, 2018, the Company recognized $0.6 million and $1.0 million, respectively, of interest and penalty expense related to unrecognized tax benefits in its Condensed Consolidated Statement of Operations.
As of each of June 30, 2018 and December 31, 2017, the total amount of accrued interest and penalty expense related to unrecognized tax benefits recorded on the Company’s Condensed Consolidated Balance Sheets was $7.5 million and $6.5 million, respectively.
During the next twelve months, it is reasonably possible that the Company's unrecognized tax benefits may decrease by $14.7 million due to expiration of statutes of limitations and settlements with tax authorities. However, if the ultimate resolution of income tax examinations results in amounts that differ from this estimate, the Company will record additional income tax expense or benefit in the period in which such matters are effectively settled.
Income Tax Examinations
The Company's income tax returns are subject to examination by the U.S. federal, U.S. state and local, and non-U.S. tax authorities.
The Company's consolidated federal income tax returns for the years 2014 through 2016 remain subject to examination by the IRS. In addition, acquired subsidiaries’ federal income tax returns (2014 through 2016) and tax carryforwards (2007 through 2012) remain subject to IRS examination.
With few exceptions, the Company is no longer subject to U.S. state and local or non-U.S. income tax examinations for years before 2011. Currently, the Company and its subsidiaries are under examination in various jurisdictions, including Germany (2010 through 2015), Canada (2013 through 2015), and Japan (2015 through 2017).

Note 9 - Contract Assets and Contract Liabilities

The Company reports contract assets, which are included within “Other current assets” in the Condensed Consolidated Balance Sheets, and contract liabilities, which are included within “Accrued liabilities” in the Condensed Consolidated Balance Sheets, on a contract-by-contract net basis at the end of each reporting period. Net contract assets and contract liabilities consisted of the following:

(in millions)	June 30, 2018	January 1, 2018
Contract assets	$53.3	$ 22.1
Contract liabilities	$78.4	$ 21.1

During the six months ended June 30, 2018, contract assets and contract liabilities increased $31.2 million and $57.3 million, respectively, primarily due to the acquisition of Crane Currency.

During the three and six month periods ended June 30, 2018, the Company recognized $22.7 million and $33.5 million, respectively, related to the opening balance of contract liabilities as of January 1, 2018.

See Note 2, “Significant Accounting Policies Update” for further details.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Goodwill and Intangible Assets

The Company's business acquisitions have typically resulted in the recognition of goodwill and other intangible assets. The Company follows the provisions under ASC Topic 350, "Intangibles – Goodwill and Other" ("ASC 350") as it relates to the accounting for goodwill in the condensed consolidated financial statements. These provisions require that the Company, on at least an annual basis, evaluate the fair value of the reporting units to which goodwill is assigned and attributed and compare that fair value to the carrying value of the reporting unit to determine if an impairment has occurred. The Company performs its annual impairment testing during the fourth quarter. Impairment testing takes place more often than annually if events or circumstances indicate a change in status that would indicate a potential impairment. The Company believes that there have been no events or circumstances which would more likely than not reduce the fair value for its reporting units below its carrying value. A reporting unit is an operating segment unless discrete financial information is prepared and reviewed by segment management for businesses one level below that operating segment (a "component"), in which case the component would be the reporting unit. As of June 30, 2018, the Company had eight 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 10.0% and 13.0% (a weighted average of 11.0%), reflecting the respective inherent business risk of each of the reporting units tested. This methodology for valuing the Company's reporting units (commonly referred to as the Income Method) has not changed since the adoption of the provisions under ASC 350. The determination of discounted cash flows is based on the businesses' strategic plans and long-range planning forecasts, which change from year to year. The revenue growth rates included in the forecasts represent best estimates based on current and forecasted market conditions. Profit margin assumptions are projected by each reporting unit based on the current cost structure and anticipated net cost increases/reductions. There are inherent uncertainties related to these assumptions, including changes in market conditions, and management judgment is necessary in applying them to the analysis of goodwill impairment. In addition to the foregoing, for each reporting unit, market multiples are used to corroborate its discounted cash flow results where fair value is estimated based on earnings multiples determined by available public information of comparable businesses. While the Company believes it has made reasonable estimates and assumptions to calculate the fair value of its reporting units, it is possible a material change could occur. If actual results are not consistent with management's estimates and assumptions, goodwill and other intangible assets may then be determined to be overstated and a charge would need to be taken against net earnings. Furthermore, in order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test performed during the fourth quarter of 2017, the Company applied a hypothetical, reasonably possible 10% decrease to the fair values of each reporting unit. The effects of this hypothetical 10% decrease would still result in the fair value calculation exceeding the carrying value for each reporting unit.

Changes to goodwill are as follows:

(in millions)	Fluid Handling	Payment & Merchandising Technologies	Aerospace & Electronics	Engineered Materials	Total
Balance as of December 31, 2016	$ 212.3	$ 563.3	$ 202.3	$ 171.3	$ 1,149.2
Additions	22.6	8.9	—	—	31.5
Currency translation	10.5	15.5	0.1	0.1	26.2
Balance at December 31, 2017	$ 245.4	$ 587.7	$ 202.4	$ 171.4	$ 1,206.9
Additions	—	231.0	—	—	231.0
Currency translation	(2.4)	(2.9)	—	(0.1)	(5.4)
Balance as of June 30, 2018	$ 243.0	$ 815.8	$ 202.4	$ 171.3	$ 1,432.5

For the six months ended June 30, 2018, additions to goodwill represent the preliminary purchase price allocation related to the January 2018 acquisition of Crane Currency. For the year ended December 31, 2017, additions to goodwill represent the purchase price allocation related to the April 2017 acquisition of Westlock and the June 2017 acquisition of Microtronic. See discussion in Note 3, "Acquisitions" for further details.
As of June 30, 2018, the Company had $504.6 million of net intangible assets, of which $70.3 million were intangibles with indefinite useful lives, consisting of trade names. Intangibles with indefinite useful lives are tested annually for impairment, or when events or changes in circumstances indicate the potential for impairment. If the carrying amount of an indefinite lived intangible asset exceeds its fair value, the intangible asset is written down to its fair value. Fair value is calculated using relief from royalty method. The Company amortizes the cost of definite-lived intangibles over their estimated useful lives.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Changes to intangible assets are as follows:

(in millions)	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Balance at beginning of period, net of accumulated amortization	$276.8	$ 282.2
Additions	250.8	18.2
Amortization expense	(22.9)	(30.9)
Currency translation and other	(0.1)	7.3
Balance at end of period, net of accumulated amortization	$504.6	$ 276.8

For the six months ended June 30, 2018, additions to intangible assets represent the preliminary purchase price allocation related to the January 2018 acquisition of Crane Currency. For the year ended December 31, 2017, additions to intangible assets represent the purchase price allocation related to the April 2017 acquisition of Westlock and the June 2017 acquisition of Microtronic. See discussion in Note 3, “Acquisitions” for further details.

A summary of intangible assets follows:

(in millions)	Weighted Average Amortization Period of Finite Lived Assets (in years)	June 30, 2018			December 31, 2017		
		Gross Asset	Accumulated Amortization	Net	Gross Asset	Accumulated Amortization	Net

Intellectual property rights	16.4	$131.6	$ 55.3	$76.3	$91.7	$ 54.8	$36.9
Customer relationships and backlog	18.4	549.8	197.9	351.9	414.7	183.4	231.3
Drawings	37.9	11.1	10.4	0.7	11.1	10.4	0.7
Other	10.2	135.4	59.7	75.7	61.8	53.9	7.9
Total	17.7	$827.9	$ 323.3	$504.6	$579.3	$ 302.5	$276.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future amortization expense associated with intangible assets is expected to be:

(in millions)	
Remainder of 2018	$22.1
2019	41.3
2020	37.2
2021	34.6
2022 and thereafter	299.1

Note 11 - Accrued Liabilities

Accrued liabilities consist of:

(in millions)	June 30, 2018	December 31, 2017
Employee related expenses	$ 88.6	$ 99.1
Warranty	15.7	14.6
Contract liabilities	78.4	27.0
Other	145.3	111.4
Total	$ 328.0	$ 252.1

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

A summary of the warranty liabilities is as follows:

(in millions)	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Balance at beginning of period	$ 14.6	$ 15.5
Expense	7.6	13.4
Changes due to acquisitions	1.1	0.1
Payments / deductions	(7.7)	(14.7)
Currency translation	0.1	0.3
Balance at end of period	$ 15.7	$ 14.6

Note 12 - Commitments and Contingencies

Asbestos Liability

Information Regarding Claims and Costs in the Tort System

As of June 30, 2018, 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,
	2018	2017	2018	2017	2017
Beginning claims	30,990	35,560	32,234	36,052	36,052
New claims	620	684	1,228	1,502	2,819
Settlements	(332)	(327)	(605)	(628)	(1,038)

Dismissals (1,358) (3,937) (2,937) (4,946)2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands, except per share data)	2013	2012	2013	2012
Net Income (Loss) Attributable to Common Stockholders	$19,765	$5,815	$(5,439)	$11,857
Gain on sales of real estate properties	(20,187)	(6,265)	(21,970)	(9,696)
Impairments	6,259	2,860	9,889	7,197
Real estate depreciation and amortization	24,214	23,336	72,175	70,231
Total adjustments	10,286	19,931	60,094	67,732
Funds from Operations	$30,051	$25,746	$54,655	$79,589
Funds from Operations per Common Share—Basic	$0.32	$0.34	$0.61	$1.04
Funds from Operations per Common Share—Diluted	$0.32	$0.33	$0.60	$1.02
Weighted Average Common Shares Outstanding—Basic	93,443	76,713	89,871	76,535
Weighted Average Common Shares Outstanding—Diluted	94,836	78,021	91,330	77,799

Management believes that net income, as defined by GAAP, is the most appropriate earnings measurement. However, management considers certain non-GAAP financial measures to be useful supplemental measures of the Company's operating performance. A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Set forth below are descriptions of the non-GAAP financial measures management considers relevant to the Company's business and useful to investors, as well as reconciliations of these measures to the most directly comparable GAAP financial measures.

The non-GAAP financial measures presented herein are not necessarily identical to those presented by other real estate companies due to the fact that not all real estate companies use the same definitions. These measures should not be considered as alternatives to net income (determined in accordance with GAAP), as indicators of the Company's financial performance, or as alternatives to cash flow from operating activities (determined in accordance with GAAP) as measures of the Company's liquidity, nor are these measures necessarily indicative of sufficient cash flow to fund all of the Company's needs. Management believes that in order to facilitate a clear understanding of the Company's consolidated historical operating results, these measures should be examined in conjunction with net income as presented in the Condensed Consolidated Financial Statements and other financial data included elsewhere in this Quarterly Report on Form 10-Q.

Table of Contents

Results of Operations
Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012
The Company’s results of operations for the three months ended September 30, 2013 compared to the same period in 2012 were significantly impacted by acquisitions, dispositions, properties in stabilization, extinguishments of debt, gains on sales of real estate investments and impairments recorded upon a decision to sell a group of properties.

Revenues
Rental income increased $6.1 million, or 8.3%, to approximately $79.3 million compared to $73.2 million in the prior year period and is comprised of the following:

	Three Months Ended September 30,		Change		
(Dollars in thousands, except per share data)	2013	2012	$	%	
Property operating	$63,854	$60,651	$3,203	5.3	%
Single-tenant net lease	12,986	10,711	2,275	21.2	%
Straight-line rent	2,416	1,812	604	33.3	%
Total Rental income	$79,256	$73,174	$6,082	8.3	%

Property operating income increased $3.2 million, or 5.3%, from the prior year period as a result of the following activity:

- Acquisitions in 2012 and 2013 contributed $1.8 million.
- Additional leasing activity at properties in stabilization contributed $2.1 million.
- Net leasing activity including contractual rent increases and renewals contributed to a decrease of $0.3 million as a result of rent abatements included in certain lease renewals. The effects are partially offset in the increase in straight-line rent revenue.
- Conversion to single-tenant net lease caused a decrease of $0.3 million.

Single-tenant net lease revenue increased $2.3 million, or 21.2%, from the prior year period as a result of the following activity:

- The Company's 2012 and 2013 acquisitions contributed $1.6 million.
- New leasing activity including contractual rent increases contributed $0.3 million.
- Lease conversions from property operating revenue contributed $0.3 million.

Straight-line rent increased $0.6 million, or 33.3%, from the prior year as a result of the following activity:

- The Company's 2012 and 2013 acquisitions contributed $0.2 million.
- New leasing activity including contractual rent increases and the effects of rent abatements contributed $0.4 million.

Mortgage interest income increased $1.7 million, or 75.0%, from the prior year period. The continued funding of two construction mortgage notes receivable for the two build-to-suit facilities affiliated with Mercy Health contributed $1.7 million. This amount was offset by payoffs of other mortgage notes.

Expenses
Property operating expenses increased $2.9 million, or 9.8%, for the three months ended September 30, 2013 compared to the prior year period as a result of the following activity:

- The Company's 2012 and 2013 acquisitions accounted for an increase of $0.9 million.
-

Properties that were previously under construction that commenced operations during 2012 accounted for an increase of $0.2 million.

- The Company experienced an overall increase in real estate taxes of approximately $1.2 million, professional fees of approximately $0.4 million and maintenance costs of approximately $0.2 million.

Table of Contents

General and administrative expenses increased approximately $0.9 million, or 18.1%, for the three months ended September 30, 2013 compared to the prior year period because of an increase in compensation-related expenses totaling $0.8 million including non-cash stock-based compensation.

Depreciation expense increased $1.7 million, or 8.5%, for the three months ended September 30, 2013 compared to the prior year period. Properties acquired in 2012 and 2013 and developments completed and commencing operations contributed a combined increase of $1.2 million. The remaining $0.5 million increase is related to various building and tenant improvement expenditures.

Other income (expense)

Interest expense decreased $1.8 million for the three months ended September 30, 2013 compared to the prior year period. The components of interest expense are as follows:

(Dollars in thousands)	2013	2012	Change	Percentage Change
Contractual interest	$16,034	$19,151	$(3,117)	(16.3)%
Net discount accretion	305	251	54	21.5%
Deferred financing costs amortization	716	792	(76)	(9.6)%
Interest cost capitalization	(12)	(1,313)	1,301	(99.1)%
Total Interest expense	$17,043	$18,881	$(1,838)	(9.7)%

Contractual interest decreased $3.1 million primarily as a result of a lower average interest rate on the Unsecured Credit Facility, the lower interest on the Senior Notes due 2023 issued in the first quarter of 2013 compared to the Senior Notes due 2014 that were repaid in the second quarter of 2013, and the repayment of the secured loan from TIAA.

Capitalized interest costs decreased $1.3 million from a decrease in development expenditures upon completion of various projects in progress.

Discontinued Operations

Results from discontinued operations for the three months ended September 30, 2013 were income of $14.8 million compared to $5.0 million for the three months ended September 30, 2012. These amounts include the results of operations, impairments and gains on sale related to assets classified as held for sale or disposed of as of September 30, 2013. See Note 2 to the Condensed Consolidated Financial Statements for more detail.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

The Company’s results of operations for the nine months ended September 30, 2013 compared to the same period in 2012 were significantly impacted by acquisitions, dispositions, properties in stabilization, gains on sale and impairments of real estate investments and extinguishments of debt.

Revenues

Rental income increased $17.4 million to approximately $233.3 million, or 8.0%, compared to $215.9 million in the prior year period and is comprised of the following:

	Nine Months Ended September 30,		Change	
(Dollars in thousands, except per share data)	2013	2012	$	%
Property operating	$189,164	$179,315	$9,849	5.5%
Single-tenant net lease	37,488	31,337	6,151	19.6%
Straight-line rent	6,667	5,285	1,382	26.1%
Total Rental income	$233,319	$215,937	$17,382	8.0%

Property operating income increased $9.8 million, or 5.5%, from the prior year period as a result of the following activity:

27

Table of Contents

- Acquisitions in 2012 and 2013 contributed $4.8 million.
- Additional leasing activity at properties in stabilization contributed $6.9 million.
- Net leasing activity including contractual rent increases and renewals resulted in a decrease of $0.8 million from rent abatements included in certain lease renewals. These effects are partially offset in the increase to straight-line rent revenue.
- Conversion to single-tenant net lease caused a decrease of $1.1 million.

Single-tenant net lease revenue increased $6.2 million, or 19.6%, from the prior year period as a result of the following activity:

- The Company's 2012 and 2013 acquisitions contributed $4.0 million.
- New leasing activity including contractual rent increases contributed $1.4 million.
- Lease conversions from property operating revenue contributed $0.9 million.

Straight-line rent increased $1.4 million, or 26.1% from the prior year period as a result of the following activity:

- The Company's 2012 and 2013 acquisitions contributed $0.7 million.
- New leasing activity including contractual rent increases and the effects of rent abatements contributed $0.6 million.

Mortgage interest income increased $3.7 million, or 56.5%, from the prior year period. The continued funding of two mortgage construction notes receivable for the two build-to-suit facilities affiliated with Mercy Health contributed $4.6 million. This amount was offset by payoffs of other mortgage notes.

Expenses
Property operating expenses increased $7.0 million, or 8.0%, for the nine months ended September 30, 2013 compared to the prior year period as a result of the following activity:

- The Company's 2012 and 2013 acquisitions accounted for an increase of $2.1 million.
- Properties that were previously under construction that commenced operations during 2012 accounted for an increase of $0.8 million.
- Real estate taxes increased $3.8 million, which includes the effect of a reduction of property tax expense recognized in 2012 as a result of favorable negotiations of approximately $2.3 million.

General and administrative expenses increased approximately $3.5 million, or 23.8%, for the nine months ended September 30, 2013 compared to the prior year period because of an increase in compensation-related expenses of approximately $3.0 million, primarily non-cash stock-based compensation and project costs of approximately $1.0 million. These amounts are partially offset by a decrease in professional fees of approximately $0.6 million.
Depreciation expense increased $4.4 million, or 7.3%, for the nine months ended September 30, 2013 compared to the prior year period. Properties acquired in 2012 and 2013 and developments completed and commencing operations contributed a combined increase of $3.2 million. The remaining $1.2 million increase is related to various building and tenant improvement expenditures.
Amortization expense increased $0.3 million for the nine months ended September 30, 2013 compared to the prior year period primarily as a result of intangibles recognized on properties acquired during 2012 and 2013.

Table of Contents

Other income (expense)

Loss on extinguishments of debt are associated with the redemption of the Senior Notes due 2014 of approximately $12.3 million and the payoff of a secured loan with TIAA of approximately $17.4 million. See Note 3 to the Condensed Consolidated Financial Statements for more detail.

Interest expense decreased slightly for the nine months ended September 30, 2013 compared to the prior year period. The components of interest expense are as follows:

(Dollars in thousands)	2013	2012	Change	Percentage Change
Contractual interest	$52,568	$57,410	$(4,842)	(8.4)%
Net discount accretion	842	737	105	14.2%
Deferred financing costs amortization	2,511	2,376	135	5.7%
Interest cost capitalization	(183)	(4,782)	4,599	(96.2)%
Total Interest expense	$55,738	$55,741	$(3)	—%

Contractual interest decreased $4.8 million primarily as a result of a lower average utilization and lower average interest rate on the Unsecured Credit Facility, the lower interest on the Senior Notes due 2023 issued in the first quarter of 2013 compared to the Senior Notes due 2014 that were repaid in the second quarter of 2013 and the repayment of the secured loan from TIAA.

Capitalized interest costs decreased $4.6 million from a decrease in development expenditures upon completion of various projects in progress.

Discontinued Operations

Results from discontinued operations for the nine months ended September 30, 2013 were income of $16.0 million compared to income of $9.6 million for the nine months ended September 30, 2012. These amounts include the results of operations, impairments and gains on sale related to assets classified as held for sale or disposed of as of September 30, 2013. See Note 2 to the Condensed Consolidated Financial Statements for more detail.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk in the form of changing interest rates on its debt and mortgage notes and other notes receivable. Management uses regular monitoring of market conditions and analysis techniques to manage this risk. During the nine months ended September 30, 2013, there were no material changes in the quantitative and qualitative disclosures about market risks presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this report. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports it files or submits under the Exchange Act.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The Company is, from time to time, involved in litigation arising in the ordinary course of business or which is expected to be covered by insurance. The Company is not aware of any pending or threatened litigation that, if resolved against the Company, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect the Company's business, financial condition or future results. The risks, as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company's business, financial condition, operating results or cash flows.

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

During the nine months ended September 30, 2013, the Company withheld shares of Company common stock to satisfy employee tax withholding obligations payable under the vesting of restricted stock, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31	(745)	$24.93	—	—
February 1 - February 28	(3,880)	25.60	—	—
March 1 - March 31	(1,436)	26.71	—	—
April 1 - April 30	(3,300)	27.00	—	—
May 1 - May 31	(15)	29.73	—	—
June 1 - June 30	—	—	—	—
July 1 - July 31	(57)	25.40	—	—
August 1 - August 31	—	—	—	—
September 1 - September 30	—	—	—	—
Total	(9,433)			

Table of Contents

Item 6. Exhibits

Exhibit	Description
Exhibit 3.1	Second Articles of Amendment and Restatement of the Company(1)
Exhibit 3.2	Amended and Restated Bylaws of the Company, as amended(2)
Exhibit 4.1	Specimen Stock Certificate(1)
Exhibit 4.2	Indenture, dated as of May 15, 2001, by and between the Company and Regions Bank, as trustee(3)
Exhibit 4.3	Second Supplemental Indenture, dated as of March 30, 2004, by and between the Company and Regions Bank, as Trustee(4)
Exhibit 4.4	Form of 5.125% Senior Note Due 2014(4)
Exhibit 4.5	Third Supplemental Indenture, dated December 4, 2009, by and between the Company and Regions Bank, as Trustee(5)
Exhibit 4.6	Form of 6.50% Senior Notes due 2017 (set forth in Exhibit B to the Third Supplemental Indenture filed as Exhibit 4.5 thereto)(5)
Exhibit 4.7	Fourth Supplemental Indenture, dated December 13, 2010, by and between the Company and Regions Bank, as Trustee(6)
Exhibit 4.8	Form of 5.750% Senior Notes due 2021 (set forth in Exhibit B to the Fourth Supplemental Indenture filed as Exhibit 4.7 thereto)(6)
Exhibit 4.9	Fifth Supplemental Indenture, dated March 26, 2013, by and between the Company and Regions Bank, as Trustee(7)
Exhibit 4.10	Form of 3.75% Senior Notes due 2023 (set forth in Exhibit B to the Fifth Supplemental Indenture filed as Exhibit 4.9 thereto)(7)
Exhibit 11	Statement re: Computation of per share earnings (filed herewith in Note 5 to the Condensed Consolidated Financial Statements)
Exhibit 31.1	Certification of the Chief Executive Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
Exhibit 31.2	Certification of the Chief Financial Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
Exhibit 32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
Exhibit 101.INS	XBRL Instance Document (filed herewith)

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith)

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)

Exhibit 101.LAB XBRL Taxonomy Extension Labels Linkbase Document (filed herewith)

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

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(1) Filed as an exhibit to the Company’s Registration Statement on Form S-11 (Registration No. 33-60506) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by reference.
(2) Filed as an exhibit to the Company’s Form 10-Q for the quarter ended September 30, 2007 and hereby incorporated by reference.
(3) Filed as an exhibit to the Company's Form 8-K filed May 17, 2001 and hereby incorporated as reference.
(4) Filed as an exhibit to the Company’s Form 8-K filed March 29, 2004 and hereby incorporated by reference.
(5) Filed as an exhibit to the Company’s Form 8-K filed December 4, 2009 and hereby incorporated by reference.
(6) Filed as an exhibit to the Company’s Form 8-K filed December 13, 2010 and hereby incorporated by reference.
(7) Filed as an exhibit to the Company's Form 8-K filed March 26, 2013 and hereby incorporate by reference.

Table of Contents

SIGNATURE

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

HEALTHCARE REALTY TRUST INCORPORATED

By: /s/ SCOTT W. HOLMES
Scott W. Holmes
Executive Vice President and Chief Financial Officer

Date: October 30, 2013

Table of Contents

Exhibit Index

Exhibit	Description
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Exhibit 3.2	Amended and Restated Bylaws of the Company, as amended[(2)]
Exhibit 4.1	Specimen Stock Certificate[(1)]
Exhibit 4.2	Indenture, dated as of May 15, 2001, by and between the Company and Regions Bank, as trustee[(3)]
Exhibit 4.3	Second Supplemental Indenture, dated as of March 30, 2004, by and between the Company and Regions Bank, as Trustee[(4)]
Exhibit 4.4	Form of 5.125% Senior Note Due 2014[(4)]
Exhibit 4.5	Third Supplemental Indenture, dated December 4, 2009, by and between the Company and Regions Bank, as Trustee[(5)]
Exhibit 4.6	Form of 6.50% Senior Notes due 2017 (set forth in Exhibit B to the Third Supplemental Indenture filed as Exhibit 4.5 thereto)[(5)]
Exhibit 4.7	Fourth Supplemental Indenture, dated December 13, 2010, by and between the Company and Regions Bank, as Trustee[(6)]
Exhibit 4.8	Form of 5.750% Senior Notes due 2021 (set forth in Exhibit B to the Fourth Supplemental Indenture filed as Exhibit 4.7 thereto)[(6)]
Exhibit 4.9	Fifth Supplemental Indenture, dated March 26, 2013, by and between the Company and Regions Bank, as Trustee[(7)]
Exhibit 4.10	Form of 3.75% Senior Notes due 2023 (set forth in Exhibit B to the Fifth Supplemental Indenture filed as Exhibit 4.9 thereto)[(7)]
Exhibit 11	Statement re: Computation of per share earnings (filed herewith in Note 5 to the Condensed Consolidated Financial Statements)
Exhibit 31.1	Certification of the Chief Executive Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
Exhibit 31.2	Certification of the Chief Financial Officer of Healthcare Realty Trust Incorporated pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
Exhibit 32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
	XBRL Instance Document (filed herewith)

Exhibit 101.INS	
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
Exhibit 101.LAB	XBRL Taxonomy Extension Labels Linkbase Document (filed herewith)
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

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(1) Filed as an exhibit to the Company’s Registration Statement on Form S-11 (Registration No. 33-60506) previously filed pursuant to the Securities Act of 1933 and hereby incorporated by reference.
(2) Filed as an exhibit to the Company’s Form 10-Q for the quarter ended September 30, 2007 and hereby incorporated by reference.
(3) Filed as an exhibit to the Company's Form 8-K filed May 17, 2001 and hereby incorporated as reference.
(4) Filed as an exhibit to the Company’s Form 8-K filed March 29, 2004 and hereby incorporated by reference.
(5) Filed as an exhibit to the Company’s Form 8-K filed December 4, 2009 and hereby incorporated by reference.
(6) Filed as an exhibit to the Company’s Form 8-K filed December 13, 2010 and hereby incorporated by reference.
(7) Filed as an exhibit to the Company's Form 8-K filed March 26, 2013 and hereby incorporate by reference.