

CIRCOR INTERNATIONAL INC

Form 10-K

March 10, 2008

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to

Commission File Number 001-14962

CIRCOR INTERNATIONAL, INC.

(A Delaware Corporation)

I.R.S. Identification No. 04-3477276

c/o Circor, Inc.

Suite 130

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25 Corporate Drive, Burlington, MA 01803-4238

Telephone: (781) 270-1200

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

Common Stock, par value \$.01 per share (registered on the New York Stock Exchange)

Preferred Stock Purchase Rights

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Company

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

The aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2007 was \$659,478,069.

As of February 25, 2008, there were 16,671,261 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain portions of the information from the Registrant's definitive Proxy Statement for the 2008 Annual Meeting of Stockholders to be held on April 30, 2008. The definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of 2007.

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Part I

Item 1. Business

This annual report on Form 10-K (hereinafter, the Annual Report) contains certain statements that are forward-looking statements as that term is defined under the Private Securities Litigation Reform Act of 1995 (the Act) and releases issued by the Securities and Exchange Commission. The words may, hope, should, expect, plan, anticipate, intend, believe, estimate, predict, potential, continue, and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. We believe that it is important to communicate our future expectations to our stockholders, and we, therefore, make forward-looking statements in reliance upon the safe harbor provisions of the Act. However, there may be events in the future that we are not able to accurately predict or control, and our actual results may differ materially from the expectations we describe in our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the cyclicity and highly competitive nature of some of our end markets which can affect the overall demand for and pricing of our products, changes in the price of and demand for oil and gas in both domestic and international markets, variability of raw material and component pricing, changes in our suppliers performance, fluctuations in foreign currency exchange rates, our ability to continue operating our manufacturing facilities at efficient levels including our ability to continue to reduce costs, our ability to generate increased cash by reducing our inventories, our prevention of the accumulation of excess inventory, our ability to successfully implement our acquisition strategy, increasing interest rates, our ability to continue to successfully defend product liability actions including asbestos-related claims, as well as the uncertain continuing impact on economic and financial conditions in the United States and around the world as a result of terrorist attacks, current Middle Eastern tensions and related matters. We advise you to read further about certain of these and other risk factors set forth in Part I, Item 1A, Risk Factors of this Annual Report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Available Information

We file reports on Form 10-Q with the Securities and Exchange Commission (SEC) on a quarterly basis, additional reports on Form 8-K from time to time and a Definitive Proxy Statement and an annual report on Form 10-K on an annual basis. These and other reports filed by us, or furnished by us, to the SEC in accordance with section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge from the SEC on its website at <http://www.sec.gov>. Additionally, our Form 10-Q, Form 8-K and Form 10-K reports are available without charge, as soon as reasonably practicable after they have been filed with the SEC, from our website at www.circor.com by using the Investors hyperlink. The information on our website is not part of, or incorporated by reference, in this Annual Report.

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Our History

We were established by our former parent, Watts Water Technologies, Inc., formerly known as Watts Industries, Inc. (Watts), to continue to operate the former industrial, oil and gas businesses of Watts. On October 18, 1999, Watts distributed all of our outstanding common stock to Watts shareholders of record as of October 6, 1999 in a tax-free distribution. As a result, information related to historical activities of our business units also includes time periods when such units constituted the former industrial, oil and gas businesses of Watts. As used in this report, the terms we, us, our, and CIRCOR mean CIRCOR International, Inc. and its subsidiaries (unless the context indicates another meaning). The term common stock means our common stock, par value \$0.01 per share.

Our Business

We design, manufacture and distribute a broad array of valves and related fluid-control products and certain services to a variety of end-markets for use in a wide range of applications to optimize the efficiency and/or ensure the safety of fluid-control systems. We have a global presence and operate 17 significant manufacturing facilities that are located in the United States, Canada, Western Europe and the People's Republic of China. We have two major product groups: Instrumentation and Thermal Fluid Controls Products and Energy Products. As of December 31, 2007, our products were sold through nearly 1,400 distributors and we serviced more than 10,000 customers in over 130 countries around the world. Within our major product groups, we have used both internal product development and strategic acquisitions to assemble an array of fluid-control products and technologies that enable us to fulfill our customers' unique fluid-control application needs.

Instrumentation and Thermal Fluid Controls Products Group The Instrumentation and Thermal Fluid Controls Products Group designs, manufactures and distributes valves, fittings and controls for diverse end-uses, including instrumentation, aerospace, cryogenic and steam applications. Selected products include precision valves, compression tube fittings, control valves, relief valves, butterfly valves, solenoid valves, couplers, regulators, switches, strainers, samplers and aerospace landing gear. The Instrumentation and Thermal Fluid Controls Products Group consists primarily of the following product brand names: Aerodyne Controls; Circle Seal Controls; Loud Engineering; Industria; Hale Hamilton; Leslie Controls; Nicholson Steam Trap; GO Regulator; Hoke; Spence Engineering; Atkomatic Valve; CPC-Cryolab; RTK; Rockwood Swendeman; Spence Strainers; Dopak Sampling Systems, Texas Sampling, Tomco Quick Couplers and U.S. Para Plate.

The Instrumentation and Thermal Fluid Controls Products Group accounted for \$343.6 million, or 52%, of our net revenues for the year ended December 31, 2007.

We have had a long-standing presence in the steam application markets, starting with our 1984 acquisition of Spence Engineering Company, Inc. (Spence Engineering or Spence) and our 1989 acquisitions of Leslie Controls, Inc. (Leslie Controls) and Nicholson Steam Trap, Inc. (Nicholson Steam Trap). In January 1999, we acquired SSI Equipment Inc. which added a wide variety of strainers (now operated under the Spence Strainers name) to expand our industrial products line. In June 2001, we acquired Regeltechnik Kornwestheim GmbH and certain of its affiliates (RTK). In February 2006 we acquired Hale Hamilton Valves Limited (Hale Hamilton). We believe that we have a very strong franchise in steam valve products. Both Leslie Controls and Nicholson Steam Trap have been in the

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steam pressure reduction and control business for over 100 years. Spence Engineering has also been in these businesses for nearly 80 years. Hale Hamilton is a leading provider of high pressure valves and flow control equipment to the naval defense, industrial gas and high technology industrial markets. Due to the reputation of each of these businesses for reliability and quality, customers often specifically request our products by brand name. Our steam valve products are used in: municipal and institutional steam heating and air-conditioning applications; power plants; industrial and food processing; and commercial and military maritime applications.

Commencing with the 1990 acquisition of Circle Seal Controls, Inc. (Circle Seal), a manufacturer of miniature instrumentation valves, we have acquired fifteen businesses that serve the instrumentation and aerospace fluid control markets. These acquisitions included Aerodyne Controls (Aerodyne) in December 1997, Atkomatic Valve (Atkomatic) in April 1998, Hoke, Inc. (Hoke) in July 1998, GO Regulator in April 1999, Tomco Products, Inc. (Tomco) and U.S. Para Plate Corporation (U.S. Para Plate) in October 2002, DQS International (DQS) in November 2003, Texas Sampling, Inc. (TSI) in December 2003, Loud Engineering & Manufacturing (Loud) in January 2005 and Industria S.A. (Industria) in October 2005. In July 2007, we purchased the assets of Survival Engineering, Inc. (SEI) which were merged into our Aerodyne subsidiary. Aerodyne manufactures high-precision valve components for the medical, analytical, military and aerospace markets. Aerodyne also provides advanced technologies and control systems capabilities to other companies in the Instrumentation and Thermal Fluid Controls Products Group. The Atkomatic product line consists of heavy-duty process solenoid valves that automate the regulation and sequencing of liquid levels or volume flow. The GO Regulator products include a complete line of specialized cylinder valves, customized valves and pneumatic pressure regulators for instrumentation, analytical and process applications. The Tomco brand is a full line of quick connect and disconnect couplers for general-purpose industrial applications and more sophisticated instrumentation markets. The U.S. Para Plate products involve high-pressure valves and regulators for aerospace and military applications. DQS and TSI manufacture and sell analytical sampling products. Loud is a designer and manufacturer of landing gear systems and related components for military helicopters and jet aircraft, and Industria produces solenoid valves and components for commercial and military applications.

Energy Products Group The Energy Products Group designs, manufactures and distributes flanged-end and threaded-end floating and trunnion ball valves, needle valves, check valves, butterfly valves, large forged steel ball valves, gate valves, control valves, relief valves, pressure regulators, pipeline measurement and pipeline closures for use in oil, gas and chemical processing and industrial applications. We believe that our Energy Products Group is one of the leading producers of ball valves for the oil and natural gas markets worldwide. The Energy Products Group consists primarily of the following product brand names: KF; Contromatics; Pibiviesse; Mallard Control, Hydroseal, and Sagebrush.

The Energy Products Group accounted for \$322.1 million, or 48%, of our net revenues for the year ended December 31, 2007.

We entered the energy products market in 1978 with the formation by Watts of the industrial products division and our development of a floating ball valve for industrial and chemical processing applications. With the acquisition of KF Industries, Inc. (KF Industries) in July 1988, we expanded our product offerings to include floating and trunnion-supported ball valves and needle valves. KF Industries gave us

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entry into the oil and gas transmission, distribution and exploration markets. In 1989, we acquired Eagle Check Valve, which added check valves to our product line. Pibiviesse Srl (Pibiviesse), based in Nerviano, Italy, was acquired in November 1994. Pibiviesse manufactures forged steel ball valves for the petrochemical market, including a complete range of trunnion-mounted ball valves. Pibiviesse's manufacturing capabilities include valve sizes up through 60 inches in diameter, including very high pressure ratings to meet demanding international oil and gas pipeline and production requirements. In March 1998, we acquired and added Telford Valve and Specialties, Inc. (now referred to as KF Canada) to KF Industries. KF Canada had been one of KF Industries' largest distributors. With this acquisition KF Industries increased its presence in Canada, and introduced KF Canada's products (check valves and specialty gate valves) through its worldwide representative network. KF Canada also has assumed the Canadian sales activities for other of our Energy Products Group companies to strengthen our overall sales presence in Canada.

During 1999, we consolidated the industrial products division of Watts under the KF Contromatics name into KF Industries in Oklahoma City, Oklahoma. These industrial products consist of carbon steel and stainless steel ball valves, butterfly valves and pneumatic actuators that are used in a variety of industrial, pulp, paper and chemical processing applications. In April 2004, we acquired Mallard Control Company and its wholly-owned subsidiary, Hydroseal, (Mallard) which produces control valves, relief valves, pressure regulators, and other related products primarily for oil and gas production and processing and other petrochemical applications. During 2005, we merged the operations of Mallard and Hydroseal into KF Industries' Oklahoma City facility and renamed the resulting entity Circor Energy Products Inc. (CEP). As a result, CEP now manufactures and sells products under the KF Industries, Mallard Control, Hydroseal Valve and Contromatics names. In May 2005, we acquired the 40% interest that we did not own in our Chinese joint venture, Suzhou KF Valve Company, Ltd. (SKVC), located in Suzhou, People's Republic of China. SKVC was originally formed as a joint venture with us in 1995 and manufactures two-inch through twenty-four-inch carbon and stainless steel ball valves. We sell products manufactured by SKVC to customers worldwide for oil and gas applications. In February 2006, we acquired Sagebrush Pipeline Equipment Company (Sagebrush) which provides pipeline flow control and measurement equipment to the North American oil and gas markets.

Industry

Oil and Gas and Petrochemical Markets. The oil and gas and petrochemical markets include domestic and international oil and gas exploration and production, distribution, refining, pipeline construction and maintenance, chemical processing and general industrial applications.

Process and Power Markets. The process and power markets use valves to control steam and other fluids for a variety of applications, including: heating facilities; production of hot water and electricity; freeze protection of external piping; cleaning by laundries; food processing and cooking; and heat transfer applications using steam or hot water in industrial processes.

HVAC and Maritime Markets. The HVAC market utilizes valves and control systems, primarily in steam-related commercial and institutional heating applications. Steam control products also are used in the maritime market, which includes the U.S. Navy and commercial shipping.

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Aerospace Markets. The commercial and military aerospace markets we serve include valve and component applications and landing systems used on military combat and transport aircraft, helicopters, missiles, tracked vehicles and ships. Our products also are used on commercial, commuter and business aircraft, space launch vehicles, space shuttles and satellites. Our products also are sold into the support infrastructure for these markets, with such applications as ground support maintenance equipment. We supply products used in hydraulic, fuel, water, and air systems.

Pharmaceutical, Medical and Analytical Instrumentation Markets. The pharmaceutical industry uses our products in research and development, analytical instrumentation and process measurement applications. We also market our products to original equipment manufacturers of surgical and medical instruments. Representative applications include: surgical and medical instruments; orthopedic devices and surgical supplies; diagnostic reagents; electro-medical equipment; x-ray equipment; and dental equipment.

Our Business Objectives and Strategies

We are focused on providing solutions for our customers fluid control requirements through a broad base of products and services. We have begun to transform our worldwide operations and culture through the development of lean manufacturing techniques. We believe many of our product lines have leading positions in their niche markets. Our objective is to enhance shareholder value through profitable growth of our diversified, multi-national, fluid control company. In order to achieve this objective, our key strategies are to:

Continue to build market positions and improve operational performance to customers;

Improve the profitability of our business;

Expand into various fluid control industries and markets and capitalize on integration opportunities;

Increase product offerings; and

Expand our geographic coverage.

Overall, our growth strategies are expected to continue increasing our market positions, building our product offerings, enhancing marketing and distribution channels and providing additional opportunities to realize integration cost savings.

Products

The following table lists the principal products and markets served by each of the businesses within our two product groups. Within the majority of our product lines, we believe that we have competitively broad product offerings in terms of distinct designs, sizes and configurations of our valves and related products.

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Product Families	Principal Products	Primary Markets Served
Instrumentation and Thermal Fluid Controls Products Group		
Aerodyne Controls	Pneumatic manifold switches; mercury-free motion switches; pneumatic valves; control assemblies	Aerospace; medical instrumentation; military; automotive

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Product Families	Principal Products	Primary Markets Served
Instrumentation and Thermal Fluid Controls Products Group (Continued)		
Circle Seal Controls	Motor-operated valves; check valves; relief valves; pneumatic valves; gauges; solenoid valves; regulators	General industrial; power generation; medical; pharmaceutical; aerospace; military; natural gas vehicles
CPC-Cryolab and Rockwood Swendeman	Cryogenic control and safety relief valves; valve assemblies	Liquefied industrial gases; other high purity processing
Dopak and Texas Sampling Systems	Sampling systems for liquids, liquefied gas, and gases	Chemical; petrochemical; pharmaceutical; biotech; and food and beverage industries
GO Regulator	Pressure reducing regulators; specialized cylinder manifolds; high pressure regulators; pneumatic pressure regulators; diaphragm valves	Analytical instrumentation; chemical processing; semiconductors
Hale Hamilton	Stop valves; relief valves; pressure regulators; reducing stations; filling systems	Maritime and naval defense; industrial gas; high technology industrial
Hoke	Compression tube fittings; instrument ball and needle valves; cylinders; cylinder valves; actuators; modular analyzer systems	General industrial; analytical instrumentation; compressed natural gas; natural gas vehicles; chemical processing; semiconductors
Industria	Solenoid valves and components	Aerospace; commercial and military
Leslie Controls	Steam and water regulators; steam control valves; electric actuated shut-off valves; steam water heaters	HVAC; maritime; general industrial and power; chemical processing
Loud Engineering	Landing gear systems; struts; solenoids; actuators	Aerospace; military
Nicholson Steam Trap	Steam traps; condensate pumps; unions	HVAC; general industrial; industrial processing
RTK	Control valves; regulators; actuators; and related instrumentation products	HVAC; industrial; food and beverage; pharmaceutical
Survival Engineering Inc.	Inflation Valves, Inlet Check Valves, Pressure Relief Valves, Topping Off Valves, Hand Pumps, Hoses and Flanges	Life rafts (marine and aviation), Marine Evacuation Systems, Underwater Recovery Systems, Submarine Underwater Escape Systems
Spence Engineering	Safety and relief valves; pilot operated and direct steam regulators; steam control valves	HVAC; general industrial
Spence Strainers	Specialty strainers; check valves; butterfly valves; connectors	General industrial; chemical processing; refining; power; and HVAC

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Product Families	Principal Products	Primary Markets Served
Instrumentation and Thermal Fluid Controls Products Group (Continued)		
Tomco	Pneumatic and hydraulic quick couplers and safety relief valves	General industrial and instrumentation
U.S. Para Plate	High pressure valves and regulators	Aerospace; military; industrial wash systems
Energy Products Group		
Contromatics	Threaded-end and flanged-end floating ball valves; butterfly valves; pneumatic and electric actuators	Oil and gas; refining; general industrial; chemical processing
KF Industries	Threaded-end and flanged-end floating ball valves; actuators; pipeline closures; trunnion supported ball valves; needle valves; check valves, Mud valves; and gate valves	Oil and gas exploration; production; refining and transmission; maritime; chemical processing
Hydroseal	Relief valves	Oil and gas production and processing and other industrial applications
Mallard Control	Control valves; pressure regulators; and other related products	Oil and gas production and processing and other industrial applications
Pibiviesse	Forged steel ball valves	Oil and gas exploration; production; refining and transmission
Sagebrush	Pipeline flow control and measurement systems	Oil and gas production; refining and transmission

Sales and Distribution

We sell our products to distributors and end-users primarily through commissioned representatives and through our direct sales forces. Our representative networks offer technically trained sales forces with strong relationships to key markets on a variable cost (commission) basis to us.

We believe that our multifaceted and well established sales and distribution channels constitute a competitive strength, providing access to our markets. We believe that we have good relationships with our representatives and distributors and we continue to implement marketing programs to enhance these relationships. Ongoing distribution-enhancement programs include shortening shelf stock delivery, reducing assemble-to-order lead times, introducing new products, and offering competitive pricing, technical training and literature.

Manufacturing

We have integrated and highly automated manufacturing capabilities including machining operations, assembly and testing. We also purchase machined components and finished valves to supplement our internal manufacturing capacity and to lower our overall cost of less sophisticated valve products. Our

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machining operations feature computer-controlled machine tools, high-speed chucking machines and automatic screw machines for machining brass, iron, steel and aluminum components. We believe that our diverse manufacturing capabilities are essential in the valve industry in order to control product quality, to be responsive to customers' custom design requirements and to ensure timely delivery. Product quality and performance are a priority for our customers, especially since many of our product applications involve caustic or volatile chemicals and, in many cases, involve processes that are used in the precise control of fluids. In order to further improve our profitability and increase working capital turns, we continued our implementation of lean manufacturing techniques, expanding to most of our manufacturing locations and we have also continued to further expand our foreign sourcing programs.

We are committed to maintaining our manufacturing equipment at a level consistent with current technology in order to maintain high levels of quality and manufacturing efficiencies. As part of this commitment, we have spent a total of \$12.0 million, \$10.0 million, and \$15.0 million on capital expenditures for the years ended December 31, 2007, 2006, and 2005, respectively. Depreciation expense for these periods was \$10.9 million, \$11.2 million, and \$9.8 million, respectively.

We believe that our current facilities will meet our near-term production requirements without the need for additional facilities.

Quality Control

The majority of our products require the approval of and have been approved by applicable industry standards agencies in the United States and European markets. We have consistently advocated the development and enforcement of performance and safety standards, and continually update our procedures as part of our commitment to meet these standards. We maintain quality control and testing procedures at each of our manufacturing facilities in order to produce products in compliance with these standards. Additionally, most of our major manufacturing subsidiaries in the Instrumentation and Thermal Fluid Controls Products Group have acquired ISO 9000 or 9001 certification from the International Organization for Standardization and those in the Energy Products Group have acquired American Petroleum Institute certification.

Our products are designed, manufactured and tested to meet the requirements of various government or industry regulatory bodies as well as the quality control systems of certain customers. The primary industry standards that certain of our Instrumentation and Thermal Fluid Controls Products must meet include standards promulgated by: Underwriters' Laboratory; American National Standards Institute; American Society of Mechanical Engineers; U.S. Military; Federal Aviation Administration; Society of Automotive Engineers; Boeing Basic and Advanced Management System; Aerospace Quality Assurance System; the American Gas Association; the Department of Transportation; and European Pressure Equipment Directive and Technical Inspection Association. The primary industry standards required to be met by, and applicable to, our Energy Products include: American National Standards Institute; American Society of Mechanical Engineers; American Petroleum Institute and Factory Mutual.

Product Development

We continue to develop new and innovative products to enhance our market positions. Our product development capabilities include the ability to design and manufacture custom applications to meet high

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tolerance or close precision requirements. For example, KF Industries has fire-safe testing capabilities, Circle Seal has the ability to meet the testing specifications of the aerospace industry and Pibiviesse can meet the tolerance requirements of sub-sea and cryogenic environments. These testing and manufacturing capabilities have enabled us to develop customer-specified applications, unique characteristics of which have been subsequently utilized in broader product offerings. Our research and development expenditures for the years ended December 31, 2007, 2006, and 2005, were \$3.2 million, \$3.2 million, and \$1.9 million, respectively.

Raw Materials

The raw materials used most often in our production processes are stainless steel, carbon steel, aluminum, bronze, and brass. These materials are subject to price fluctuations that may adversely affect our results of operations. We purchase these materials from numerous suppliers and have recently experienced constraints on the supply of certain raw material as well as the inability of certain suppliers to respond to our increasing needs. Historically, increases in the prices of raw materials have been partially offset by increased sales prices, active materials management, project engineering programs and the diversity of materials used in our production processes.

Competition

The domestic and international markets for our products are highly competitive. Some of our competitors have substantially greater financial, marketing, personnel and other resources than us. We consider product quality, performance, price, distribution capabilities and breadth of product offerings to be the primary competitive factors in these markets. We believe that new product development and product engineering are also important to our success and that our position in the industry is attributable, in significant part, to our ability to develop innovative products quickly, and to adapt and enhance existing products to specific customer applications.

The primary competitors of our Instrumentation and Thermal Fluid Controls Products Group include: Swagelok Company; Parker Hannifin Corporation; The Ham-let Group; Samson AG; Spirax-Sarco Engineering plc; Masonneilan (a division of Dresser, Inc.); Flowseal (a division of Crane Co.); Fisher (a division of Emerson Electric Company); and ASCO.

The primary competitors of our Energy Products Group include: Cameron; Balon; Crane Co.; Velan Valve Corporation; Kitz Corporation; Valvitalia SpA and ZyTech Global Industries.

Trademarks and Patents

We own patents that are scheduled to expire between 2008 and 2024 and trademarks that can be renewed as long as we continue to use them. We do not believe the vitality and competitiveness of either of our business segments as a whole depends on any one or more patents or trademarks. We own certain licenses such as software licenses, but we do not believe that our business as a whole depends on any one or more licenses.

Customers, Cyclicity and Seasonality

For the year ended December 31, 2007, no single customer accounted for more than 10% of revenues for either the Instrumentation and Thermal Fluid Controls Products Group or the Energy Products Group.

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We have experienced and expect to continue to experience fluctuations in revenues and operating results due to economic and business cycles. Our businesses, particularly the Energy Products Group, are cyclical in nature as the worldwide demand for oil and gas fluctuates. When the worldwide demand for oil and gas is depressed, the demand for our products used in those markets declines. Future changes in demand for petrochemical products could have a material adverse effect on our business, financial condition or results of operations. Similarly, although not to the same extent as the oil and gas markets, the aerospace, military and maritime markets have historically experienced cyclical fluctuations in demand that could also have a material adverse effect on our business, financial condition or results of operations.

Backlog

Our total order backlog was \$422 million as of January 25, 2008, compared to \$300 million as of February 10, 2007. We expect all but \$85.0 million of the backlog at January 25, 2008 will be shipped by December 31, 2008. The change in our backlog was primarily due to increased orders for major international oil and gas projects.

Employees

As of December 31, 2007, our worldwide operations directly employed approximately 2,600 people. We have 66 employees in the United States who are covered by a single collective bargaining agreement. We also have 190 employees in Italy, 117 in France, 45 in the Netherlands and 22 in Germany, covered by governmental regulations or workers' councils. We believe that our employee relations are good at this time.

Segment and Geographic Financial Data

Financial information by segment and geographic area is incorporated herein by reference to Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 17 in the notes to consolidated financial statements included in this report.

Government Regulation Regarding the Environment

As a result of our manufacturing and assembly operations, our businesses are subject to federal, state, local and foreign laws, as well as other legal requirements relating to the generation, storage, transport and disposal of materials. These laws include, without limitation, the Resource Conservation and Recovery Act, the Clean Air Act, the Clean Water Act and the Comprehensive Environmental Response and Compensation and Liability Act.

We currently do not anticipate any materially adverse impact on our business, financial condition or results of operations as a result of our compliance with federal, state, local and foreign environmental laws. However, risk of environmental liability and charges associated with maintaining compliance with environmental laws is inherent in the nature of our manufacturing operations and there is no assurance that material liabilities or charges could not arise. During the year ended December 31, 2007, we capitalized approximately \$0.5 million related to environmental and safety control facilities and we also incurred and expensed an additional \$0.6 million related to environmental and safety control facilities. We also expect to capitalize \$0.6 million related to environmental and safety control facilities during the year ending

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December 31, 2008 and also expect to incur and expense charges of approximately \$0.9 million related to environmental and safety control facilities during the year ending December 31, 2008.

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Item 1A. Risk Factors

Certain Risk Factors That May Affect Future Results

Set forth below are certain risk factors that we believe are material to our stockholders. If any of the following risks occur, our business, financial condition, results of operations, and reputation could be harmed. You should also consider these risk factors when you read forward-looking statements elsewhere in this report. You can identify forward-looking statements by terms such as may, hope, should, expect, plan, anticipate, intend, believe, estimate, predict, potential, or continue, the negative of those terms or other comparable terminology. Those forward-looking statements are only predictions and can be adversely affected if any of the following risks occur:

Our Leslie Controls, Inc. subsidiary is subject to asbestos-related litigation that could ultimately have an adverse effect on our financial statements, results of operations or cash flows.

As more fully described in Part I, Item 3 Legal Proceedings, our Leslie Controls, Inc. subsidiary (Leslie) has been and continues to be named as a defendant in asbestos related product liability actions. The actual amounts expended on asbestos-related claims in any year may be impacted by the number of claims filed, the volume of pre-trial proceedings, and the numbers of trials and settlements. Historically, Leslie's defense and resolution of these asbestos-related claims has not had a material adverse effect on our financial condition, results of operations, or cash flows. During the fourth quarter of 2007, Leslie recorded an additional liability of \$9.0 million and anticipated insurance recoveries of \$6.4 million, for the estimated indemnity cost associated with resolution of its current open claims. Although Leslie believes this estimate is reasonable, such estimate also is highly uncertain, especially because Leslie's claims history is relatively limited, very recent, and quite variable. As a result, the actual costs of resolving these pending claims could be substantially higher or lower than the current estimate. In addition, while future claims are probable, Leslie's management cannot estimate the losses that may arise from such future claims and we, therefore, have not accrued a liability for such future claims. Leslie also incurs significant costs in defending asbestos claims and we record these costs at the time incurred. A significant increase beyond our estimates in the cost to Leslie of resolving current claims, the incurrence of significant liability with respect to future claims, or a significant increase in the cost of defending current and future asbestos claims could have a material adverse effect on our financial condition, results of operations or cash flows.

Leslie's primary insurance carriers currently pay 71% of each defense and indemnity dollar incurred with respect to asbestos claims. Leslie management believes that the amount of insurance remaining in its primary layer should be sufficient to cover resolution of its current claims. While future claims are probable, we cannot estimate the amount of any liabilities associated with such future claims; however, resolution of such future claims could result in an exhaustion of the primary layer of insurance. Because Leslie has limited available excess insurance coverage, an exhaustion of its primary insurance layer would likely result in Leslie becoming responsible for a substantial majority of any defense and indemnity costs which could have a material adverse effect on our financial condition, results of operations, or cash flows. In this regard, we refer the reader to and incorporate by reference Part I, Item 3 captioned Legal Proceedings in this Annual Report on Form 10-K and to Part I, Item I captioned Legal Proceedings in our periodic filings on Form 10-Q which provides more specific information regarding the amount of primary layer insurance remaining.

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We believe that payment of any litigation-related asbestos liabilities of Leslie (Leslie currently constitutes approximately 6% of the Company's consolidated revenues and shareholders' equity) is legally limited to the net assets of that subsidiary. This belief is based on the principle of American law that a shareholder (including a parent corporation) is generally not liable for an incorporated entity's obligations.

Some of our end-markets are cyclical, which may cause us to experience fluctuations in revenues or operating results.

We have experienced, and expect to continue to experience, fluctuations in revenues and operating results due to economic and business cycles. We sell our products principally to oil, gas, petrochemical, process, power, aerospace, military, heating, ventilation and air conditioning (HVAC), maritime, pharmaceutical, and medical and instrumentation markets. Although we serve a variety of markets to avoid a dependency on any one, a significant downturn in any one of these markets could cause a material reduction in our revenues that could be difficult to offset.

In particular, our petrochemical business is cyclical in nature as the worldwide demand for oil and gas fluctuates. When worldwide demand for oil and gas is depressed, the demand for our products used in maintenance and repair of existing oil and gas applications, as well as exploration or new oil and gas project applications, is reduced. As a result, we historically have generated lower revenues and profits in periods of declining demand for petrochemical products. Therefore, results of operations for any particular period are not necessarily indicative of the results of operations for any future period. Future downturns in demand for petrochemical products could have a material adverse effect on our business, financial condition or results of operations. Similarly, although not to the same extent as the oil and gas markets, the aerospace, military and maritime markets have historically experienced cyclical fluctuations in demand that also could have a material adverse effect on our business, financial condition or results of operations.

We face the continuing impact of economic and financial conditions in the United States and around the world as well as current conflicts in Iraq and the rest of the Middle East.

In the past, terrorist attacks have negatively impacted general economic, market and political conditions. In particular, the 2001 terrorist attacks, compounded with changes in the national economy, resulted in reduced revenues in the aerospace and general industrial markets in years 2002 and 2003. Although economic conditions have improved considerably, additional terrorist acts or acts of war (wherever located around the world) could cause damage or disruption to our business, our facilities or our employees which could significantly impact our business, financial condition or results of operations. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility, including the current conflicts in Iraq and the Middle East, have created many economic and political uncertainties, which could adversely affect our business and results of operations in ways that cannot presently be predicted. In addition, with manufacturing facilities located worldwide, including facilities located in the United States, Canada, Western Europe and the People's Republic of China, we may be impacted by terrorist actions not only against the United States but in other parts of the world as well. We are not insured for losses and interruptions caused by terrorist acts and acts of war for our aviation products.

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If we cannot continue operating our manufacturing facilities at current or higher levels, our results of operations could be adversely affected.

We operate a number of manufacturing facilities for the production of our products. The equipment and management systems necessary for such operations may break down, perform poorly, or fail, resulting in fluctuations in manufacturing efficiencies. Such fluctuations may affect our ability to deliver products to our customers on a timely basis, which could have a material adverse effect on our business, financial condition or results of operations. Commencing in 2005 and continuing in 2007, we embarked on a company wide program to implement lean manufacturing techniques. We believe that this process will produce meaningful reductions in manufacturing costs. However, implementation of these techniques may cause short-term inefficiencies in production. If we ultimately are unable to successfully implement these processes our anticipated profitability may suffer.

We face significant competition in our markets and, if we are not able to respond to competition in our markets, our revenues may decrease.

We face significant competition from a variety of competitors in each of our markets. Some of our competitors have substantially greater financial, marketing, personnel and other resources than we do. New competitors also could enter our markets. We consider product quality, performance, price, distribution capabilities and breadth of product offerings to be the primary competitive factors in our markets. Our competitors may be able to offer more attractive pricing, duplicate our strategies, or develop enhancements to products that could offer performance features that are superior to our products. Competitive pressures, including those described above, and other factors could adversely affect our competitive position, involving a loss of market share or decreases in prices, either of which could have a material adverse effect on our business, financial condition or results of operations. In addition, some of our competitors are based in foreign countries and have cost structures and prices based on foreign currencies. Accordingly, currency fluctuations could cause our U.S. dollar-priced products to be less competitive than our competitors' products that are priced in other currencies.

If we experience delays in introducing new products or if our existing or new products do not achieve or maintain market acceptance, our revenues may decrease.

Our industries are characterized by: intense competition; changes in end-user requirements; technically complex products; and evolving product offerings and introductions.

We believe our future success will depend, in part, on our ability to anticipate or adapt to these factors and to offer, on a timely basis, products that meet customer demands. Failure to develop new and innovative products or to custom design existing products could result in the loss of existing customers to competitors or the inability to attract new business, either of which may adversely affect our revenues. The development of new or enhanced products is a complex and uncertain process requiring the anticipation of technological and market trends. We may experience design, manufacturing, marketing or other difficulties, such as an inability to attract a sufficient number of qualified engineers, which could delay or prevent our development, introduction or marketing of new products or enhancements and result in unexpected expenses.

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Implementation of our acquisition strategy may not be successful, which could affect our ability to increase our revenues or could reduce our profitability.

One of our continued strategies is to increase our revenues and expand our markets through acquisitions that will provide us with complementary instrumentation and thermal fluid controls and energy products. We expect to spend significant time and effort in expanding our existing businesses and identifying, completing and integrating acquisitions. We expect to face competition for acquisition candidates that may limit the number of acquisition opportunities available to us and may result in higher acquisition prices. We cannot be certain that we will be able to identify, acquire or profitably manage additional companies or successfully integrate such additional companies without substantial costs, delays or other problems. Also, there can be no assurance that companies we acquire will achieve revenues, profitability or cash flows that justify our investment in them and may result in an impairment charge. In addition, acquisitions may involve a number of special risks, including: adverse short-term effects on our reported operating results; diversion of management's attention; loss of key personnel at acquired companies; or unanticipated management or operational problems or legal liabilities. Some or all of these special risks could have a material adverse effect on our business, financial condition or results of operations.

If we fail to manufacture and deliver high quality products, we may lose customers.

Product quality and performance are a priority for our customers since many of our product applications involve caustic or volatile chemicals and, in many cases, involve processes that require precise control of fluids. Our products also are used in the aerospace, military, commercial aircraft, pharmaceutical, medical, analytical equipment, oil and gas exploration, transmission and refining, chemical processing, and maritime industries. These industries require products that meet stringent performance and safety standards. If we fail to maintain and enforce quality control and testing procedures, our products will not meet these stringent performance and safety standards. Substandard products would seriously harm our reputation, resulting in both a loss of current customers to our competitors and damage to our ability to attract new customers, which could have a material adverse effect on our business, financial condition or results of operations.

If we are unable to continue operating successfully overseas or to successfully expand into new international markets, our revenues may decrease.

We derive a significant portion of our revenue from sales outside the United States. In addition, one of our key growth strategies is to market our products in international markets not currently served by us in portions of Europe, Latin America and Asia. We may not succeed in marketing, selling and distributing our products in these new markets. Moreover, conducting business outside the United States is subject to additional risks, including currency exchange rate fluctuations, changes in regional, political or economic conditions, trade protection measures such as tariffs or import or export restrictions, and unexpected changes in regulatory requirements. One or more of these factors could prevent us from successfully expanding into new international markets and could also have a material adverse effect on our current international operations.

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If we can not pass on higher raw material or manufacturing costs to our customers, we may become less profitable.

One of the ways we attempt to manage the risk of higher raw material and manufacturing costs is to increase selling prices to our customers. The markets we serve are extremely competitive and customers may not accept price increases or may look to alternative suppliers which may negatively impact our profitability and revenues.

If our suppliers cannot provide us with adequate quantities of materials to meet our customers' demands on a timely basis or if the quality of the materials provided does not meet our standards we may lose customers or experience lower profitability.

Some of our customer contracts require us to compensate those customers if we do not meet specified delivery obligations. We rely on numerous suppliers to provide us with our required materials and in many instances these materials must meet certain specifications. During 2005 and part of 2006, we experienced diminished supplier performance that negatively impacted our operating and net income. The diminished supplier performance was the result of: the closure of certain suppliers, problems with new supplier on-time delivery reliability as well as lower than expected new supplier qualification acceptance. While we believe that we have taken appropriate steps to remediate these lower supplier performance issues and to alleviate the diminished impact on profitability, a continuation or recurrence of these factors could have a negative impact on our ability to deliver our products to our customers within our committed time frames and could result in continued reductions of our operating and net income in future periods.

A change in international governmental policies or restrictions could result in decreased availability and increased costs for certain components and finished products that we outsource, which could adversely affect our profitability.

Like most manufacturers of fluid control products, we attempt, where appropriate, to reduce costs by seeking lower cost sources of certain components and finished products. Many such sources are located in developing countries such as the People's Republic of China, India and Taiwan, where a change in governmental approach toward U.S. trade could restrict the availability to us of such sources. In addition, periods of war or other international tension could interfere with international freight operations and hinder our ability to take delivery of such components and products. A decrease in the availability of these items could hinder our ability to timely meet our customers' orders. We attempt, when possible, to mitigate this risk by maintaining alternate sources for these components and products and by maintaining the capability to produce such items in our own manufacturing facilities. However, even when we are able to mitigate this risk, the cost of obtaining such items from alternate sources or producing them ourselves is often considerably greater, and a shift toward such higher cost production could therefore adversely affect our profitability.

The costs of complying with existing or future environmental regulations, and curing any violations of these regulations could increase our expenses or reduce our profitability.

We are subject to a variety of environmental laws relating to the storage, discharge, handling, emission, generation, use and disposal of chemicals, solid and hazardous waste and other toxic and hazardous

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materials used to manufacture, or resulting from the process of manufacturing, our products. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing or future laws will be administered or interpreted. Future regulations could be applied to materials, products or activities that have not been subject to regulation previously. The costs of complying with new or more stringent regulations, or with more vigorous enforcement of these or existing regulations could be significant.

Environmental laws require us to maintain and comply with a number of permits, authorizations and approvals and to maintain and update training programs and safety data regarding materials used in our processes. Violations of these requirements could result in financial penalties and other enforcement actions. We also could be required to halt one or more portions of our operations until a violation is cured. Although we attempt to operate in compliance with these environmental laws, we may not succeed in this effort at all times. The costs of curing violations or resolving enforcement actions that might be initiated by government authorities could be substantial.

The costs of complying with existing or future governmental regulations on importing and exporting practices and of curing any violations of these regulations, could increase our expenses, reduce our revenues or reduce our profitability.

We are subject to a variety of laws and international trade practices including regulations issued by the United States Bureau of Customs and Border Protection, the Bureau of Export Administration, the Department of State, the Department of Treasury. We cannot predict the nature, scope or effect of future regulatory requirements to which our international trading practices might be subject or the manner in which existing laws might be administered or interpreted. Future regulations could limit the countries into which certain of our products may be sold or could restrict our access to and increase the cost of obtaining products from foreign sources. In addition, actual or alleged violations of such regulations could result in enforcement actions and/or financial penalties that could result in substantial costs.

If our internal controls over financial reporting do not comply with the requirements of the Sarbanes-Oxley Act, our business and stock price could be adversely affected.

If either management or our independent registered public accounting firm identifies one or more material weaknesses in internal control over financial reporting that exist as of the end of our fiscal year, the material weakness(es) will be reported either by management in its self assessment or by our independent registered public accounting firm in its report or both, which may result in a loss of public confidence and could have an adverse affect on our business and our stock price. This could also result in significant additional expenditures responding to the Section 404 internal control audit and a diversion of management attention.

We face risks from product liability lawsuits that may adversely affect our business.

We, like other manufacturers and distributors of products designed to control and regulate fluids and chemicals, face an inherent risk of exposure to product liability claims in the event that the use of our products results in personal injury, property damage or business interruption to our customers. We may be subjected to various product liability claims, including, among others, that our products include

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inadequate or improper instructions for use or installation, or inadequate warnings concerning the effects of the failure of our products. Although we maintain strict quality controls and procedures, including the testing of raw materials and safety testing of selected finished products, we cannot be certain that our products will be completely free from defect. In addition, in certain cases, we rely on third-party manufacturers for our products or components of our products. Although we have liability insurance coverage, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost, or, if available, will be adequate to cover any such liabilities. We generally seek to obtain contractual indemnification from our third-party suppliers, and for us to be added as an additional insured party under such parties' insurance policies. Any such indemnification or insurance is limited by its terms and, as a practical matter, is limited to the credit worthiness of the indemnifying or insuring party. In the event that we do not have adequate insurance or contractual indemnification, product liabilities could have a material adverse effect on our business, financial condition or results of operations.

We depend on our key personnel and the loss of their services may adversely affect our business.

We believe that our success will depend on the continued employment of our senior management team and other key personnel. If one or more members of our senior management team or other key personnel were unable or unwilling to continue in their present positions, our business could be seriously harmed. In addition, if any of our key personnel joins a competitor or forms a competing company, some of our customers might choose to use the services of that competitor or those of a new company instead of our own. Other companies seeking to develop capabilities and products similar to ours may hire away some of our key personnel. If we are unable to maintain our key personnel and attract new employees, the execution of our business strategy may be hindered and our growth limited.

Various restrictions and agreements could hinder a takeover of us which is not supported by our board of directors or which is leveraged.

Our amended and restated certificate of incorporation and amended and restated by-laws, the Delaware General Corporation Law and our shareholder rights plan contain provisions that could delay or prevent a change in control in a transaction that is not approved by our board of directors or that is on a leveraged basis or otherwise. These include provisions creating a staggered board, limiting the shareholders' powers to remove directors, and prohibiting shareholders from calling a special meeting or taking action by written consent in lieu of a shareholders meeting. In addition, our board of directors has the authority, without further action by the shareholders, to set the terms of and to issue preferred stock. Issuing preferred stock could adversely affect the voting power of the owners of our common stock, including the loss of voting control to others. Additionally, we have adopted a shareholder rights plan providing for the issuance of rights that will cause substantial dilution to a person or group of persons that acquires 15% (or with respect to passive investors 20%) or more of our shares of common stock, unless the rights are redeemed.

Delaying or preventing a takeover could result in our shareholders ultimately receiving less for their shares by deterring potential bidders for our stock or assets.

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Our debt agreements limit our ability to issue equity, make acquisitions, incur debt, pay dividends, make investments, sell assets, merge or raise capital.

Our outstanding industrial revenue bond, and our revolving credit facility agreement, dated December 20, 2005 and amended October 12, 2006, govern our indebtedness to our lenders. The debt agreements include provisions which place limitations on certain activities including our ability to: issue shares of our common stock; incur additional indebtedness; create any liens or encumbrances on our assets or make any guarantees; make certain investments; pay cash dividends above certain limits; or dispose of or sell assets or enter into a merger or a similar transaction.

The trading price of our common stock may be volatile and investors in our common stock may experience substantial losses.

The trading price of our common stock may be volatile. Our common stock could decline or fluctuate in response to a variety of factors, including, but not limited to: our failure to meet the performance estimates of securities analysts; changes in financial estimates of our revenues and operating results or buy/sell recommendations by securities analysts; the timing of announcements by us or our competitors concerning significant product line developments, contracts or acquisitions or publicity regarding actual or potential results or performance; fluctuation in our quarterly operating results caused by fluctuations in revenue and expenses; substantial sales of our common stock by our existing shareholders; general stock market conditions; or other economic or external factors.

In addition, the stock market as a whole has in the past experienced price and volume fluctuations. In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of their securities. This type of litigation could result in substantial costs and a diversion of management attention and resources.

Our international activities expose us to fluctuations in currency exchange rates that could adversely affect our results of operations and cash flows.

Our international manufacturing and sales activities expose us to changes in foreign currency exchange rates. Such fluctuations could result in our (i) paying higher prices for certain imported goods and services, (ii) realizing lower prices for any sales denominated in currencies other than U.S. dollars, (iii) realizing lower net income, on a U.S. dollar basis, from our international operations due to the effects of translation from weakened functional currencies, and (iv) realizing higher costs to settle transactions denominated in other currencies. Any of these risks could adversely affect our results of operations and cash flows. Our major foreign currency exposures involve the markets in Western Europe, Canada and Asia.

We use forward contracts to manage the currency risk related to business transactions denominated in foreign currencies. We primarily utilize forward exchange contracts with maturities of less than eighteen months. To the extent these transactions are completed, the contracts do not subject us to significant risk from exchange rate fluctuations because they offset gains and losses on the related foreign currency denominated transactions.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We maintain 20 major facilities worldwide, including 17 significant manufacturing operations located in the United States, Canada, Western Europe and the People's Republic of China. Many of these facilities contain sales offices or warehouses from which we ship finished goods to customers, distributors and commissioned representative organizations. Our executive office is located in Burlington, Massachusetts.

The Instrumentation and Thermal Fluid Controls Products Group has facilities located in the United States, Germany, France, the Netherlands, and the United Kingdom. Properties in Ronkonkoma, New York; Ontario, California, Le Plessis, France, and Spartanburg, South Carolina; are leased. The Energy Products Group has facilities located in the United States, Canada, Italy and the People's Republic of China. Properties in Nerviano, Italy; Naviglio, Italy; Edmonton, Alberta, Canada; a distribution center in Oklahoma City, and a manufacturing facility in Sapulpa, Oklahoma are leased. Our Tampa facility is subject to a collateral assignment under a loan agreement with a long-term lender.

In general, we believe that our properties, including machinery, tools and equipment, are in good condition, are well maintained, and are adequate and suitable for their intended uses. Our manufacturing facilities generally operate five days per week on one or two shifts. We believe our manufacturing capacity could be increased by working additional shifts and weekends and by successful implementation of our on-going lean manufacturing initiatives.

Item 3. Legal Proceedings

Like many other manufacturers of fluid control products, our subsidiary Leslie Controls, Inc. (Leslie), which we acquired in 1989, has been and continues to be named as a defendant in product liability actions brought on behalf of individuals who seek compensation for their alleged exposure to airborne asbestos fibers. In some instances, we also have been named individually and/or as alleged successor in interest in these cases. As of December 31, 2007, Leslie was a named defendant in approximately 707 active, unresolved asbestos-related claims filed in California, Texas, New York, Massachusetts, Connecticut, and 27 other states (excluding Mississippi). Of these claims, approximately 338 involve claimants allegedly suffering from (or the estates of decedents who allegedly died from) mesothelioma, a fatal malignancy associated with asbestos exposure. In addition, Leslie was also a named defendant in approximately 5,200 unresolved asbestos-related claims filed in Mississippi. Since 2004, however, the Mississippi Supreme Court has interpreted joinder rules more strictly, and the state legislature enacted a tort reform act under which each plaintiff must independently satisfy venue provisions, thus preventing thousands of out-of-state claimants from tagging onto a single in-state plaintiff's case. As a result of these changes, Mississippi state court judges since 2004 have severed and dismissed tens of thousands of out-of-state asbestos claims against numerous defendants including Leslie. We continue to expect that most of the remaining Mississippi claims against Leslie will be dismissed as well. Leslie has not incurred any indemnity costs in Mississippi and defense costs to resolve these Mississippi cases have not been significant. While it is possible that certain dismissed claims could be re-filed in Mississippi or in other jurisdictions, any such re-filings likely would be made on behalf of one or a small number of related individuals who could demonstrate actual injury and some connection to Leslie's products.

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Leslie's asbestos-related claims generally involve its fluid control products. Leslie management believes that any asbestos was incorporated entirely within the product in a way that would not allow for any ambient asbestos during normal operation or during normal inspection and repair procedures. Leslie and its insurers' general strategy have been to vigorously defend these cases. Nevertheless, while we strongly believe that exposure to Leslie's products has not caused asbestos-related illness to any plaintiff, there is no assurance that juries or courts will not reach a different conclusion in particular cases. Leslie has resolved a number of asbestos-related claims over the past few years and continues to do so for strategic reasons, including avoiding defense costs and the possible risk of excessive verdicts. The amounts expended on asbestos-related claims in any year may be impacted by the number of claims filed, the volume of pre-trial proceedings, and the numbers of trials and settlements. To date, Leslie's defense and resolution of these asbestos-related claims have not had a material adverse effect on our financial condition, results of operations, or cash flows.

During our 2007 fiscal year Leslie resolved a total of 267 asbestos cases for an aggregate indemnity amount of \$4.3 million, of which 71% or \$3.1 million was paid by insurance. (Leslie's insurance coverage is further discussed below.) The following tables provide more specific information regarding Leslie's claim activity and defense costs during each of the three years ended December 31, 2007 as well as the financial impact on the Company of the asbestos litigation for such periods (excluding open Mississippi cases for which we anticipate dismissal of virtually all such cases for the reasons described above):

	For the Year Ended December 31		
	2007	2006	2005
Beginning open cases	492	290	122
Cases filed	482	353	216
Cases resolved and dismissed	(267)	(151)	(48)
Ending open cases	707	492	290
Ending open mesothelioma cases	338	265	169

	For the Year Ended December 31		
(In Thousands)	2007	2006	2005
Settlement costs incurred	\$ 4,252	2,338	1,059
Adverse verdicts accrued	3,766		
Open case accrual	9,030		
Defense cost incurred	8,928	5,766	2,155
Less insurance recoveries	(18,442)	(5,753)	(2,282)
Net pre-tax expense	\$ 7,534	\$ 2,351	\$ 932
Average pre-tax settlement amount per case resolved & dismissed	\$ 16	\$ 15	\$ 22

The information reflected above includes a jury verdict rendered on October 12, 2007 by a Los Angeles state court jury that, if allowed to stand, would result in a liability to Leslie of approximately \$2.5 million (29%, or approximately \$0.7 million, would be paid by Leslie while insurance would pay the balance). Although Leslie accrued a liability in the third quarter of fiscal 2007 for this verdict, both

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Leslie and the other defendant against whom the judgment was rendered have appealed this verdict. We believe there are strong grounds for either significantly reducing the amount of the award or for requiring a new trial.

Leslie records an estimated liability associated with reported asbestos claims when it believes that a loss is both probable and can be reasonably estimated. In prior periods, with respect to its unresolved pending claims, Leslie did not believe that it had sufficient information to assess the likelihood of resolving such claims. Accordingly, until the fourth quarter of 2007, Leslie accrued for defense costs as incurred, and accrued for pending claims only when resolution of a particular claim was probable and the probable loss was estimable. As a practical matter, the claims accrual generally occurred close in time to when a settlement agreement for a particular claim was reached. In most cases, settlement payments are paid to claimants within thirty to sixty days of settlement. In the only two cases in which Leslie has received an adverse verdict, Leslie has accrued \$3.8 million for such claims at the time the adverse verdict was rendered. Leslie also recorded an insurance receivable of \$2.7 million to be paid by its insurers for these adverse verdicts. In both cases, Leslie has appealed the judgment rendered against it and Leslie is not at this time able to determine when or if those accrued amounts ultimately will be paid or not.

Over the last few years, Leslie has continued to accumulate data associated with its asbestos claims. During the fourth quarter of 2007, we performed a detailed review of our Leslie asbestos matters. This review, among other items, included an assessment of Leslie's historical filed, resolved and dismissed claim rates. In conducting this review, certain factors caused us to determine that the likelihood of incurrence of indemnity costs for existing cases was now probable. The most significant of these factors include an escalation, commencing in 2006 and continuing in 2007, of the rate of claim resolutions and filings, as well as the incurrence, for the first time in 2007, of adverse jury verdicts. From 2005 to 2007, our claim settlement costs increased more than 300% and our cases filed increased more than 100%. As part of our review of asbestos matters we engaged Hamilton, Rabinovitz and Associates, Inc. (HR&A), a firm specializing in estimating expected liabilities of mass tort claims, to help us determine an estimate of Leslie's asbestos-related liabilities. Because Leslie's claims experience is both limited and variable, HR&A concluded that any estimate of pending or future liabilities of Leslie's asbestos claims would be highly uncertain from a statistical perspective. Leslie's management has determined, however, that, by using its historical (albeit brief) average cost by disease classification in resolving closed claims, and by applying this information to the mix of current open claims as of December 31, 2007, it could make a reasonable estimate of the indemnity costs to be incurred in resolving such current open claims. Therefore, during the fourth quarter of 2007 Leslie recorded an additional liability of \$9.0 million for the estimated indemnity cost associated with resolution of its current open claims. Leslie expects that payment of the amounts accrued with respect to the open claims will be made by Leslie and its insurers over the next three years. The recording of this liability resulted in a pretax charge of \$2.6 million, net of insurance recoveries. A summary of Leslie's unpaid existing asbestos claims and incurred asbestos defense cost liabilities and the related insurance recoveries is provided below.

In Thousands	As of December 31	
	2007	2006
Existing claim indemnity liability	\$ 13,731	\$
Incurred defense cost liability	\$ 3,028	\$ 1,026
Insurance recoveries	\$ 11,899	\$

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Although Leslie believes its estimates are reasonable, such estimates are also highly uncertain, especially because Leslie's claims history is relatively limited, very recent, and quite variable. Depending on future events, the actual costs of resolving these pending claims could be substantially higher or lower than the current estimate. Some of the more significant unknown or uncertain factors that will affect these costs going forward include:

the severity of the injuries alleged by each pending claimant;

increases or decreases in Leslie's average settlement costs;

possible adverse or favorable jury verdicts;

rulings on unresolved legal issues in various jurisdictions that bear on Leslie's legal liability;

the numbers of claims that will be dismissed with no indemnity payments;

the impact of potential changes in legislative or judicial standards in different jurisdictions;

the potential bankruptcies of other companies named as defendants in asbestos-related claims.

As a result of these factors, Leslie is unable to estimate a range of additional losses that may be reasonably possible in the event that actual indemnity costs of resolving pending claims are higher than our estimate. In addition, while the likelihood of future claims is probable, Leslie's management cannot estimate the amount of new claims or any range of losses that may be reasonably possible arising from such future claims. With respect to current claims, critical information is known regarding such factors as disease mix, jurisdiction and identity of plaintiff's counsel. Such information is of course unknown with respect to any future claims, and Leslie's management believes that the disease mix, jurisdictional information and plaintiff counsel identity associated with its current case experience, which has been both limited and variable, cannot reasonably be extrapolated to any future filings. Moreover, Leslie management believes that appellate actions recently commenced and currently pending in certain jurisdictions such as California, together with movements toward legislative and judicial reform in such jurisdictions may significantly alter the litigation landscape, thus affecting both the rate at which claims may be filed as well as the likelihood of incurring indemnity amounts on account of such future claims and the level of indemnity that may be incurred to resolve such claims.

To date, Leslie's insurers have paid the vast majority of the costs associated with its defense and settlement of asbestos-related actions. Under Leslie's current cost-sharing arrangements with its insurers, Leslie's insurers pay 71% of defense and settlement costs associated with asbestos-related claims and Leslie is responsible for the remaining 29% of all such defense and indemnity costs. The amount of indemnity available under Leslie's primary layer of insurance coverage is therefore reduced by 71% of any amounts paid through settlement or verdict. We believe that, as of December 31, 2007, excluding the impact of the October 12, 2007 adverse jury verdict, and without giving effect to our estimate for the indemnity cost of resolving pending claims, the aggregate amount of indemnity remaining on Leslie's primary layer of insurance was approximately \$10.5 million. If the October 12, 2007 jury verdict were to stand, our primary layer of insurance could be reduced by an additional \$1.8 million. Similarly, if our estimate of the indemnity cost of resolving pending claims is accurate, such resolution ultimately would further reduce the aggregate amount of primary layer indemnity by approximately \$6.4 million. Based on its current estimate of costs to resolve Leslie's pending asbestos claims, Leslie's management believes that this primary layer of insurance should be sufficient to cover such pending claims. As set forth above, we

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cannot estimate the amount of any liabilities associated with such future claims and therefore cannot reasonably estimate when and if the primary insurance may be eroded. In addition, Leslie has limited available excess insurance coverage. Some of this excess insurance, however, lies above layers of excess insurance written by insolvent insurers, which could affect when Leslie may be able to recover this excess insurance. Moreover, unlike primary policies under which defense costs do not erode policy limits, the terms of excess policies typically provide that covered defense costs do erode policy limits. As a result, if its primary insurance layer were exhausted, Leslie would likely become responsible for a substantial majority of any defense and indemnity costs, which could have a material adverse effect on our financial condition, results of operations, or cash flows.

We believe that payment of any litigation-related asbestos liabilities of Leslie (Leslie currently constitutes approximately 6% of the Company's consolidated revenues and shareholders' equity) is legally limited to the net assets of that subsidiary. This belief is based on the principle of American law that a shareholder (including a parent corporation) is generally not liable for an incorporated entity's obligations.

Smaller numbers of asbestos-related claims have also been filed against two of our other subsidiaries—Spence Engineering the stock of which we acquired in 1984; and Hoke, the stock of which we acquired in 1998. Due to the nature of the products supplied by these entities, the markets they serve and our historical experience in resolving these claims, we do not believe that asbestos-related claims will have a material adverse effect on the financial condition, results of operations or liquidity of Spence or Hoke, or the financial condition, consolidated results of operations or liquidity of the Company.

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

There were no matters submitted, during the fourth quarter of the year covered by this Annual Report, to a vote of security holders through solicitation of proxies or otherwise.

Part II

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

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol CIR . Quarterly share prices and dividends declared and paid are incorporated herein by reference to Note 18 to the consolidated financial statements included in this Annual Report.

During the first quarter of 2008, we declared a dividend of \$0.0375 per outstanding common share payable on March 21, 2008 to shareholders of record on March 7, 2008.

Our board of directors is responsible for determining our dividend policy. Although we currently intend to continue paying cash dividends, the timing and level of such dividends will necessarily depend on our board of directors' assessments of earnings, financial condition, capital requirements and other factors, including restrictions, if any, imposed by our lenders. See Liquidity and Capital Resources under the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations for further information.

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As of February 25, 2008, there were 16,671,261 shares of our common stock outstanding and we had 98 holders of record of our common stock. We believe the number of beneficial owners of our common stock was substantially greater on that date.

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In accordance with Section 303A, 12(a) of the NYSE Listed Company Manual, our Chief Executive Officer, on May 7, 2007, filed with the NYSE his certification that he was not aware of any violation by the Company of NYSE corporate governance listing standards.

	12/02	12/03	12/04	12/05	12/06	12/07
CIRCOR International, Inc.	100.00	152.87	148.02	164.98	237.74	300.72
S&P 500	100.00	128.68	142.69	149.70	173.34	182.87
Peer Group*	100.00	135.12	171.91	180.18	222.95	307.47

* Peer group companies include: Crane Company, Flowserve Corp, Gardner Denver Inc., IDEX Corp., Moog Inc., Parker Hannifin Corp., Robbins & Myers Inc., and Roper Industries Inc.

Item 6. Selected Financial Data

The following table presents certain selected financial data that has been derived from our audited consolidated financial statements and notes related thereto and should be read along with the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and notes included in this Annual Report.

The consolidated statements of operations and consolidated statements of cash flows data for the years ended December 31, 2007, 2006 and 2005, and the consolidated balance sheet data as of December 31,

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2007 and 2006 are derived from, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this Annual Report. The consolidated statements of operations and consolidated statements of cash flows data, and the consolidated balance sheet data as of December 31, 2004 and 2003, are derived from our audited consolidated financial statements not included in this report.

Selected Financial Data

(In thousands, except per share data)

	Years Ended December 31,				
	2007	2006	2005	2004(3)	2003
Statement of Operations Data (1):					
Net revenues	\$ 665,740	\$ 591,711	\$ 450,531	\$ 381,834	\$ 359,453
Gross profit	195,367	172,908	132,675	107,569	105,512
Operating income	56,767	47,510	33,005	21,934	29,987
Income before interest and taxes	58,024	47,376	32,861	22,168	30,824
Net income	37,911	29,328	20,383	11,803	17,873
Balance Sheet Data:					
Total assets	\$ 676,469	\$ 605,675	\$ 460,380	\$ 428,418	\$ 423,863
Total debt (2)	22,102	64,826	33,491	42,880	61,059
Shareholders equity	420,384	357,301	310,723	293,435	275,160
Total capitalization	442,486	422,127	344,214	336,315	336,219
Other Financial Data:					
Cash flow provided by (used in):					
Operating activities	\$ 56,916	\$ 29,858	\$ 45,326	\$ 29,249	\$ 58,646
Investing activities	(16,831)	(68,239)	(60,899)	(10,107)	(20,981)
Financing activities	(35,529)	34,148	(10,304)	(19,536)	(19,517)
Net interest expense	3,001	5,117	2,810	3,690	5,151
Capital expenditures	11,983	9,933	15,021	5,287	6,823
Diluted earnings per common share	\$ 2.27	\$ 1.80	\$ 1.27	\$ 0.74	\$ 1.14
Diluted weighted average common shares outstanding	16,730	16,291	16,019	15,877	15,675
Cash dividends declared per common share	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15

- (1) The statement of operations data for the years ended December 31, 2007, 2006, 2005, 2004, and 2003 includes, respectively, \$2.5 million, \$0.7 million, \$1.6 million, \$0.3 million, and \$1.4 million of special charges associated with the closure, consolidation and reorganization of certain manufacturing plants, pension curtailment, as well as costs related to CEO/CFO retirement agreements recorded in 2007.
- (2) Includes capital leases obligations of: \$0.6 million, \$0.9 million, \$1.7 million, \$0.1 million and \$0.1 million as of December 31, 2007, 2006, 2005, 2004 and 2003 respectively.
- (3) Results for the year ended December 31, 2004 include a \$6.6 million pre-tax charge for an inventory write-down related to a change in our warehousing and inventory carrying practices.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Annual Report contains certain statements that are forward-looking statements as that term is defined under the Private Securities Litigation Reform Act of 1995 (the Act) and releases issued by the Securities and Exchange Commission. The words may, hope, should, expect, plan, anticipate, intend, believe, estimate, predict, potential, continue, and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. We believe that it is important to communicate our future expectations to our stockholders, and we, therefore, make forward-looking statements in reliance upon the safe harbor provisions of the Act. However, there may be events in the future that we are not able to accurately predict or control, and our actual results may differ materially from the expectations we describe in our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the cyclical nature and highly competitive nature of some of our end markets which can affect the overall demand for and pricing of our products, changes in the price of and demand for oil and gas in both domestic and international markets, variability of raw material and component pricing, changes in our suppliers' performance, fluctuations in foreign currency exchange rates, our ability to continue operating our manufacturing facilities at efficient levels including our ability to continue to reduce costs, our ability to generate increased cash by reducing our inventories, our prevention of the accumulation of excess inventory, our ability to successfully implement our acquisition strategy, increasing interest rates, our ability to continue to successfully defend product liability actions including asbestos-related claims, as well as the uncertain continuing impact on economic and financial conditions in the United States and around the world as a result of terrorist attacks, current Middle Eastern conflicts and related matters. We advise you to read further about certain of these and other risk factors set forth in Part I Item 1A, Risk Factors of this Annual Report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Overview

CIRCOR International, Inc. is a leading provider of valves and fluid control products for the industrial, aerospace, petrochemical, and energy markets. We offer one of the industry's broadest and most diverse range of products—a range that allows us to supply end-users with a wide array of valves and component products for fluid systems.

We have organized the Company into two segments: Instrumentation and Thermal Fluid Controls Products and Energy Products. The Instrumentation and Thermal Fluid Controls Products segment serves our broadest variety of end-markets, including military and commercial aerospace, chemical processing, marine, power generation, commercial HVAC systems, food and beverage processing, and other general industrial markets. The Energy Products segment primarily serves the oil and gas exploration, production and distribution markets.

Our growth strategy includes organic profitable growth as well as strategic acquisitions that extend our current offering of engineered flow control products. For organic growth, our businesses focus on

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developing new products and reacting quickly to changes in market conditions in order to help grow our revenues. Regarding acquisitions, we have made twelve acquisitions in the last six years that extended our product offerings. Our acquisitions of Loud in January 2005 and Industria in October 2005 provided us with complementary aerospace component and subassembly manufacturing capabilities. In February 2006, we acquired two businesses: Hale Hamilton and its subsidiary Cambridge Fluid Systems, a leading provider of high pressure valves and flow control equipment, and Sagebrush which provides pipeline flow control and measurement equipment to oil and gas markets. In July 2007, we purchased the assets of SEI, a leader in the design of pneumatic controls and inflation systems for the aerospace, marine, defense, and industrial markets.

Regarding our 2007 financial results, we had a record year in a number of respects. Customer orders increased 8% over 2006 whereas revenues rose 13% over 2006. Net income and diluted earnings per share were the highest ever for Circor; net income rose 29% over 2006 to \$37.9 million and diluted earnings per share increased 26% to \$2.27. We enter 2008 with the highest backlog ever to begin a new year, at \$392 million. These results can be largely attributed to the robust worldwide spending in the oil and gas markets.

While our Energy Products segment achieved record revenues and near record operating margins, the profitability of our Instrumentation and Thermal Fluid Products segment continued to be constrained by production difficulties from operational changes, higher stainless steel costs and a significant increase in our asbestos-related costs at our Leslie facility, compared to 2006. In response to these issues, we have strengthened our supplier management processes and expanded our international sourcing programs. We have also strengthened our management teams, continued our lean manufacturing improvement initiatives with a focus on manufacturing constraints, and initiated further facility consolidations. These counter-measures helped our Instrumentation and Thermal Fluid Products segment report nearly sequential operating margin improvement after the first quarter 2007, exiting 2007 with fourth quarter 2007 operating margin of 11.2%, excluding the 286 basis point effect from the \$2.6 million accrual for asbestos-related open claims against Leslie Controls. During 2008, we expect to show improved profitability within the Instrumentation and Thermal Fluid Control Products segment.

Regarding cash flow, we generated cash flow from operating activities of \$56.9 million, or 9% of revenues, an increase of \$27.0 million compared to \$29.9 million generated in 2006. The increase from 2006 resulted from greater 2007 profitability and more efficient use of working capital compared to 2006. We also used \$16.8 million of cash for investing activities and \$35.5 million in financing activities, specifically \$43.0 million was used for net payments on our revolving line of credit. As of December 31, 2007, we believe we remain a well-capitalized company with total debt-to-total capitalization of 5%.

Basis of Presentation

All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period financial statement amounts have been reclassified to conform to currently reported presentations. We monitor our business in two segments: Instrumentation and Thermal Fluid Controls Products and Energy Products.

We operate and report financial information using a 52-week fiscal year ending December 31. The data periods contained within our Quarterly Reports on Form 10-Q reflect the results of operations for the

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13-week, 26-week and 39-week periods which generally end on the Sunday nearest the calendar quarter-end date.

Critical Accounting Policies

The following discussion of accounting policies is intended to supplement the section "Summary of Significant Accounting Policies" presented in Note 2 to our consolidated financial statements. These policies were selected because they are broadly applicable within our operating units. The expenses and accrued liabilities or allowances related to certain of these policies are initially based on our best estimates at the time of original entry in our accounting records. Adjustments are recorded when our actual experience, or new information concerning our expected experience, differs from underlying initial estimates. These adjustments could be material if our actual or expected experience were to change significantly in a short period of time. We make frequent comparisons of actual experience and expected experience in order to mitigate the likelihood of material adjustments.

Except for income taxes and a change in the measurement of pension liabilities, there have been no significant changes from the methodology applied by management for critical accounting estimates previously disclosed in our 2006 Annual Report on Form 10-K. The methodology applied to management's estimate for income taxes has changed due to the implementation of a new accounting pronouncement as described below and in Note (8) of the accompanying consolidated financial statements.

Revenue Recognition

Revenue is recognized when products are delivered, title and risk of loss have passed to the customer, no significant post-delivery obligations remain and collection of the resulting receivable is reasonably assured. Shipping and handling costs invoiced to customers are recorded as components of revenues and the associated costs are recorded as cost of revenues.

Allowance for Inventory

We typically analyze our inventory aging and projected future usage on a quarterly basis to assess the adequacy of our inventory allowances. We provide inventory allowances for excess, slow-moving, and obsolete inventories determined primarily by estimates of future demand. The allowance is measured as the difference between the cost of the inventory and estimated market value and charged to the provision for inventory, which is a component of our cost of revenues. Assumptions about future demand is one of the primary factors utilized to estimate market value. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Our net inventory balance was \$171.7 million as of December 31, 2007, compared to \$150.2 million as of December 31, 2006. Our inventory allowance as of December 31, 2007 was \$11.6 million, compared with \$11.1 million as of December 31, 2006. Our provision for inventory obsolescence was \$3.5 million, \$5.6 million, and \$3.2 million, for 2007, 2006, and 2005, respectively.

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If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of changing technology and customer requirements,

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we could be required to increase our inventory allowances and our gross profit could be adversely affected.

Inventory management remains an area of focus as we balance the need to maintain adequate inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of changing technology and customer requirements.

Purchase Accounting

In connection with our acquisitions, we assess and formulate a plan related to the future integration of the acquired entity. This process begins during the due diligence process and is concluded within twelve months of the acquisition. Our methodology for allocating the purchase price relating to purchase acquisitions is determined through established valuation techniques for industrial manufacturing companies and we typically utilize third party valuation firms to assist in the valuation of certain tangible and intangible assets. We accrue estimates for certain costs, related primarily to personnel reductions and facility closures or restructurings, anticipated at the date of acquisition, in accordance with Financial Accounting Standards Board (FASB) Statement No. 141 Business Combinations and Emerging Issues Task Force Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. Adjustments to these estimates are made during the acquisition allocation period, which is generally up to twelve months from the acquisition date as plans are finalized. Subsequent to the allocation period, costs incurred in excess of the recorded acquisition accruals are generally expensed as incurred and if accruals are not utilized for the intended purpose the excess is recorded as an adjustment to the cost of the acquired entity, usually decreasing goodwill.

Legal Contingencies

We are currently involved in various legal claims and legal proceedings, some of which may involve substantial dollar amounts. Periodically, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure can be reasonably estimated. Because of uncertainties related to these matters, accruals are based on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material adverse effect on our business, results of operations and financial position. For more information related to our outstanding legal proceedings, see Contingencies and Guarantees in Note (14) of the accompanying consolidated financial statements as well as Legal Proceedings in Part I, Item 3.

Impairment Analysis

As required by SFAS No.142, Goodwill and Intangible Assets, we perform an annual assessment as to whether there was an indication that goodwill and certain intangible assets are impaired. We also perform impairment analyses whenever events and circumstances indicate that goodwill or certain intangibles may be impaired.

Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to identifiable tangible and intangible assets acquired less liabilities assumed. Our policy is to perform

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impairment tests for each reporting unit on goodwill and certain intangible assets on an annual basis and between annual tests in certain circumstances, if triggering events indicate impairment may have occurred. In assessing the fair value of goodwill, we use our best estimates of future cash flows of operating activities and capital expenditures of the reporting unit, the estimated terminal value for each reporting unit, and a discount rate based on our weighted average cost of capital. If these estimates or related projections change in the future due to changes in industry and market conditions, we may be required to record impairment charges. When the estimated future cash flows are expected to be less than the carrying value of the assets of the reporting unit being reviewed for impairment, the assets are written down to fair market value. The goodwill recorded on the consolidated balance sheet as of December 31, 2007 was \$169.1 compared with \$163.7 million as of December 31, 2006. The amounts of our non-amortizing intangible assets were \$18.7 million and \$18.4 million, as of December 31, 2007 and 2006, respectively. Based on impairment tests performed, there was no impairment of our goodwill in 2007, 2006, or 2005.

In the fourth quarter 2007, we recorded a pre-tax charge of \$2.6 million related to the estimated indemnity costs to resolve open asbestos claims filed against Leslie Controls, which is reported in our Instrumentation and Thermal Fluid Controls Segment. As a result of the evolving factors associated with Leslie Control's asbestos matters, our outlook of diminished future cash flow for Leslie Controls was an indicator of impairment that triggered an impairment analysis on the long-lived assets of Leslie Control's in accordance with SFAS No. 144. The impairment analysis, which was completed as part of our year-end 2007 closing process with the assistance of an independent third-party appraisal firm, led us to conclude that the fair value of Leslie Control's long-lived assets was at least equal to net book value, and no impairment charge was necessary.

Income Taxes

Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance. Our effective tax rates differ from the statutory rate due to the impact of research and product development tax credits, extraterritorial income exclusion, domestic manufacturing deduction, state taxes, and the tax impact of non-U.S. operations. Our effective tax rate was 31.1%, 30.6%, and 32.2%, for 2007, 2006, and 2005, respectively. For 2008, we expect an effective income tax rate of 32.0%. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and vice versa. Changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or interpretations thereof may also adversely affect our future effective tax rate. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

In 2007, deferred income tax liabilities decreased primarily due to the reversal of prior depreciation differences and amortization relating to non-goodwill intangibles. Deferred income tax assets increased primarily due to an increase in accrued expenses and inventory reserves. Regarding deferred income tax assets, we maintained a total valuation allowance of \$9.6 million at December 31, 2007, due to uncertainties related to our ability to utilize these assets, primarily consisting of certain foreign tax credits, state net operating losses and state tax credits carried forward. The valuation allowance is based

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on estimates of taxable income in each of the jurisdictions in which we operate and the period over which our deferred tax assets will be recoverable. If market conditions improve and future results of operations exceed our current expectations, our existing tax valuation allowances may be adjusted, resulting in future tax benefits. Alternatively, if market conditions deteriorate further or future results of operations are less than expected, future assessments may result in a determination that some or all of the deferred tax assets are not realizable. As a result, we may need to establish additional tax valuation allowances for all or a portion of the gross deferred tax assets, which may have a material adverse effect on our business, results of operations and financial condition.

In June 2006, the FASB issued Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), which became effective for us beginning in 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The result of the Company's reassessment of its tax positions in accordance with FIN 48 did not have a material impact on the results of operations, financial condition or liquidity.

It is the Company's policy to record estimated interest and penalties as income tax expense and tax credits as a reduction in income tax expense. The Company recognizes both interest and penalties as part of the income tax provision. During the year ended December 31, 2007, the Company recognized approximately \$0.1 million in interest. As of December 31, 2007, accrued interest and penalties were \$0.2 million.

Deferred tax assets and liabilities are determined based upon the differences between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

As of December 31, 2007, the liability for uncertain income tax positions was \$2.3 million. Due to the high degree of uncertainty regarding the timing of potential future cash flows associated with these liabilities, we are unable to make a reasonably reliable estimate of the amount and period in which these liabilities might be paid.

For additional information regarding the adoption of FIN 48, see Income Taxes in Note (8), of the accompanying consolidated financial statements.

Pension Benefits

We maintain two pension benefit plans, a qualified noncontributory defined benefit plan that covers substantially all of our salaried and hourly non-union employees in the United States, and a nonqualified, noncontributory defined benefit supplemental plan that provides benefits to certain highly compensated officers and employees. To date, the supplemental plan remains an unfunded plan. These plans include

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significant pension benefit obligations which are calculated based on actuarial valuations. Key assumptions are made in determining these obligations and related expenses, including expected rates of return on plan assets and discount rates. Benefits are based primarily on years of service and employees' compensation. As of July 1, 2006, in connection with a revision to our retirement plan, we froze the pension benefits of our qualified noncontributory plan participants. Under the revised plan, such participants generally do not accrue any additional benefits under the defined benefit plan after July 1, 2006 and will instead receive enhanced benefits associated with our defined contribution 401(k) plan in which substantially all of our U.S. employees are eligible to participate.

Effective December 2006, we adopted the recognition and disclosure provisions of SFAS No.158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement requires employers to recognize in their balance sheets the over-funded or under-funded status of defined benefit post-retirement plans, measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for other post-retirement plans). Employers must recognize the change in the funded status of the plan in the year in which the change occurs through other comprehensive income. This Statement also requires plan assets and obligations to be measured as of the employers' balance sheet date. We adopted the measurement provisions of SFAS 158 beginning January 1, 2007. See Note (13) of the accompanying consolidated financial statements for further information on our benefit plans.

Prior to the adoption of the recognition provisions of SFAS No. 158, we accounted for our pension benefit plans under SFAS No. 87, Employers' Accounting for Pensions. SFAS No. 87 required that a liability (minimum pension liability) be recorded when the accumulated benefit obligation (ABO) exceeded the combined fair value of plan assets and accumulated pension cost. Any adjustment was recorded as a non-cash charge to other comprehensive income in shareholders' equity (deficit). SFAS No. 106 required that the liability recorded should represent the actuarial present value of all future benefits attributable to an employee's service rendered to date. Under both SFAS No. 87 and No. 106, changes in the funded status were not immediately recognized, rather they were deferred and recognized ratably over future periods. Upon adoption of the recognition provisions of SFAS No. 158, the Company recognized the amounts of prior changes in the funded status of its post-retirement benefit plans through other comprehensive income (loss).

Assets of our qualified pension plan are comprised of equity investments of companies in the United States with large and small market capitalizations, fixed income securities issued by the United States government, or its agencies, and certain international equities. There are no common shares of CIRCOR in the plan assets.

The expected long-term rate of return on plan assets used to estimate pension expenses was 8.5% for 2007 and 2006. For the qualified plan, the discount rate used to estimate the net pension expense for 2007 was 6.15% compared to 5.5% for the period of January 1, 2006 through June 30, 2006 and 6.0% for the period from July 1, 2006 through December 31, 2006. For the nonqualified plan, the discount rate used to estimate the net pension expenses for 2007 was 6.05% compared to 5.5% in 2006. The qualified plan was remeasured on March 31, 2006 due to freeze in pension benefits after July 1, 2006 which has resulted in multiple discount rates for different periods in 2006 for the qualified plan. The

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effect of the discount rate changes for 2007 lowered our projected benefit obligation by approximately \$1.5 million and lowered our 2007 pension expense by approximately \$0.1 million.

Unrecognized actuarial gains and losses in excess of the 10% corridor are being recognized over approximately a ten-year period, which represents the weighted average expected remaining service life of the employee group. Unrecognized actuarial gains and losses arise from several factors including experience and assumption changes in the obligations and from the difference between expected returns and actual returns on assets.

The fair value of our defined benefit plan assets at December 31, 2007 was less than the estimated projected benefit obligations. See Note (13) of the accompanying consolidated financial statements for further information on our benefit plans.

During 2007, we did not make any cash contributions to our defined benefit pension plans. In 2008, we do not expect to make voluntary cash contributions, although global capital market and interest rate fluctuations will impact future funding requirements.

We derive our discount rate utilizing a commonly known pension discount curve, discounting future projected benefit obligation cash flows to arrive at a single equivalent rate. For 2008, we utilized 6.25% as our discount rate for our pension plans on a weighted average basis given the level of yield on corporate bond interest rates. The effect of the change in the assumed discount rate is expected to lower our projected benefit obligation by approximately \$0.5 million and has virtually no impact on 2008 pension expense.

We will continue to evaluate our expected long-term rates of return on plan assets and discount rates at least annually and make adjustments as necessary; such adjustments could change the pension and post-retirement obligations and expenses in the future. If the actual operation of the plans differ from the assumptions, additional contributions by us may be required. If we are required to make significant contributions to fund the defined benefit plans, reported results could be adversely affected and our cash flow available for other uses may be reduced.

Table of Contents**Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006**

The following tables set forth the results of operations, percentage of net revenue and the period-to-period percentage change in certain financial data for the year ended December 31, 2007 and December 31, 2006:

	December 31, 2007		Year Ended December 31, 2006		% Change
	(Dollars in thousands)				
Net revenues	\$ 665,740	100.0%	\$ 591,711	100.0%	12.5%
Cost of revenues	470,373	70.7	418,803	70.8	12.3
Gross profit	195,367	29.3	172,908	29.2	13.0
Selling, general and administrative expenses	136,086	20.4	124,720	21.1	9.1
Special charges	2,514	0.4	678	0.1	n/m
Operating income	56,767	8.5	47,510	8.0	19.5
Other (income) expense:					
Interest expense, net	3,001	0.5	5,117	0.9	(41.4)
Other (income) expense, net	(1,257)	(0.2)	134		n/m
Total other expense	1,744	0.3	5,251	0.9	(66.8)
Income before income taxes	55,023	8.3	42,259	7.1	30.2
Provision for income taxes	17,112	2.6	12,931	2.2	32.3
Net income	\$ 37,911	5.7	\$ 29,328	5.0	29.3

Net Revenue

Net revenues for the year ended December 31, 2007 increased by \$74.0 million, or 13%, to \$665.7 million, from \$591.7 million for the year ended December 31, 2006. The increase in net revenues for the year ended December 31, 2007 was attributable to the following:

Segment	Year Ended		Total Change	Acquisitions (In thousands)	Divestiture	Operations	Foreign Exchange
	December 31, 2007	December 31, 2006					
Instrumentation & Thermal Fluids Control	\$ 343,596	\$ 312,700	\$ 30,896	\$ 2,434	\$ (7,805)	\$ 25,916	\$ 10,351
Energy	322,144	279,011	43,133	4,712		26,549	11,872
Total	\$ 665,740	\$ 591,711	\$ 74,029	\$ 7,146	\$ (7,805)	\$ 52,465	\$ 22,223

The Instrumentation and Thermal Fluid Controls Products segment accounted for 52% of net revenues for the year ended December 31, 2007 compared to 53% for the year ended December 31, 2006. The Energy Products segment accounted for 48% of net revenues for the year ended December 31, 2007 compared to 47% for the year ended December 31, 2006.

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Instrumentation and Thermal Fluid Controls Products revenues increased \$30.9 million, or 10%, for the year ended December 31, 2007 compared to the same period in 2006. The increase in revenues was the net result of several factors. This segment's customer orders increased 14% in 2007 compared to 2006, excluding a small business sold in 2006. Business units in this segment benefited from higher volumes and selling prices. Revenue increased an incremental \$2.4 million from the February 2006 acquisition of Hale Hamilton which complemented this segment's sales to general industrial, power generation, aerospace, and chemical processing end markets. The increase in 2007 on net revenues is also net of a decrease of revenues from our December 2006 sale of the small, break-even French business, Société Alsacienne Regulaves Thermiques von Rohr, S.A. (SART), which had \$7.8 million of revenue in 2006. This segment's year to date revenues also included a \$10.4 million increase due to higher foreign exchange rates compared to the US dollar. In 2008, we expect market conditions to remain steady for most of the general industrial, commercial HVAC, power generation, and aerospace end markets served by this segment. Excluding any 2008 acquisitions in this segment, we expect a revenue increase in this segment approximating 5.0 % for the full year 2008 compared 2007.

Energy Products revenues increased by \$43.1 million, or 16%, for the year ended December 31, 2007 compared to the same period in 2006. The increase in revenues was the net result of an incremental \$26.5 million from organic increases in revenues which included \$25.6 million for large international projects and fabricated systems in North America and the balance from standard products sold through distribution. The total organic revenue increase resulted from an escalation in worldwide demand for oil and natural gas that has motivated producers to increase their drilling, production, and distribution facilities. This segment's revenues for standard products sold through distribution declined in the second half of 2007 due to lower orders resulting from wet weather conditions in the Midwest in June and July and by distributors normalizing their stocking levels, after over-buying from manufacturers during 2006 and early 2007 due to tight supply of products. We expect our distributors to have completed their re-balancing of inventories by the first quarter of 2008. Revenues in 2007 also increased an incremental \$4.7 million from the February 2006 acquisition of Sagebrush which produces fabricated measuring, metering, and control sub-systems for pipeline applications in the North America oil and gas markets. This segment's revenues also included a \$11.9 million increase due to higher foreign exchange rates compared to the US dollar. The increase in end market demand resulted in this segment's customer backlog being 48% higher as of December 31, 2007, compared to the same period last year and nearly equivalent to the end of the third quarter of 2007. Looking forward, after three successive years in which this segment's organic sales growth was nearly 20% per year, we expect the Energy Products segment to have 2008 full year sales growth approximating 12% to 15% compared to 2007.

Gross Profit

Consolidated gross profit increased \$22.5 million or 13% to \$195.4 million for the year ended December 31, 2007 compared to \$172.9 million for 2006. Consolidated gross margin of 29.3% for 2007 was an increase of 10 basis points from 2006.

Gross profit for the Instrumentation and Thermal Fluid Controls Products segment increased \$6.6 million for the year ended December 31, 2007 compared to the same period in 2006. Gross profit increased on higher unit volume increases related to market growth and selective customer price increases; however, these increases were partially offset by higher costs. The higher costs included

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continuing higher raw material costs, especially brass, stainless steel and other nickel-based alloys, and we were not able to fully offset these additional costs via higher prices to customers. Also, with higher capacity utilization at critical vendors, we spent additional amounts to counteract decreased vendor responsiveness and lengthened lead times to receive certain critical parts. Further, we experienced lower factory productivity from re-organizing production flow in three of this segment's U.S. plants. Measures enacted to counter these factors include outsourcing and foreign-sourcing to lower the cost of goods sold, focusing lean manufacturing priorities to achieve more linear and efficient production levels, and ensuring predictable flow of inventory from global suppliers. One result of counter-measures taken was the closing in the first quarter of 2007 of a U.S. plant with similar production now being sourced from Asian suppliers. This plant closing resulted in a special charge cost in 2007 of \$1.2 million, of which \$0.6 million was recorded in each of the first two quarters of 2007. The annual savings of this closure and foreign-sourcing counter-measure is expected to be \$1.7 million.

Gross profit for the Energy Products segment increased \$15.9 million or 22% for the year ended December 31, 2007 compared to the same period in 2006. This increase included an incremental \$0.9 million from the February 2006 acquisition of Sagebrush and \$3.3 million increase in gross profit due to higher foreign exchange rates compared to the US dollar. The remainder of the 2007 increase resulted from operational improvements: higher unit shipments to meet the strong global demand, customer price increases, and further increases in foreign-sourcing which helped to lower cost of goods sold and improved linearity in production activities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$11.4 million, or 9%, to \$136.1 million for the year ended December 31, 2007 compared to \$124.7 million for 2006. Selling, general and administrative expenses were 20.4% of revenues for 2007, a decrease of 70 basis points from 2006.

Selling, general and administrative expenses for the Instrumentation and Thermal Fluid Controls Products segment increased by \$6.7 million over 2006 which was due to increased litigation costs associated with asbestos-related claims, higher foreign exchange rates for the Euro and Pound Sterling, higher personnel-related costs at certain locations, and the incremental impact from our 2006 acquisition of Hale Hamilton, offset by \$3.1 million of costs for our Sart business divested in December 2006. The increased litigation costs included a net \$2.6 million charge related to an accrual for estimated indemnity costs to resolve open asbestos claims for our Leslie facility.

Selling, general and administrative expenses for the Energy Products segment increased only \$2.6 million despite its 16% revenue growth. This increase was due to higher foreign exchange rates for the Euro, incremental expense from our February 2006 acquisition of Sagebrush, and higher commissions.

Corporate, general and administrative expenses increased \$2.0 million to \$17.9 million in 2007 compared to the year ended December 31, 2006. The increase was primarily from higher benefit costs and professional fees.

Table of Contents**Special Charges**

Special charges of \$2.5 million were recorded in the year ended December 31, 2007. These charges include \$2.4 million related to costs associated with the Company's CEO and CFO retirement agreements, specifically the accelerated vesting of certain equity awards; \$1.2 million pertaining to severance and facility costs primarily from closing a facility located in Connecticut within the Instrumentation and Thermal Fluid Controls segment, and a \$1.2 million net gain related to the sale of facilities classified as held for sale within the Energy Products Segment.

For the year ended December 31, 2006, special charges of \$0.7 million were recognized including a pension curtailment charge of \$0.4 million incurred in connection with the freeze of our qualified noncontributory defined benefit plan and \$0.3 million related to a write-down of an asset classified as held for sale.

Operating Income

The change in operating income for the year ended December 31, 2007 compared to the year ended December 31, 2006 was as follows:

Segment	Year Ended		Total Change	Acquisitions	Divestiture	Operations	Foreign Exchange
	December 31, 2007	December 31, 2006					
				(In thousands)			
Instrumentation & Thermal Fluid Controls	\$ 26,287	\$ 27,658	\$ (1,371)	\$ 90	\$ (153)	\$ (2,300)	\$ 992
Energy	50,691	36,102	14,589	458		11,965	2,166
Corporate	(20,211)	(16,250)	(3,961)			(3,961)	
Total	\$ 56,767	\$ 47,510	\$ 9,257	\$ 548	\$ (153)	\$ 5,704	\$ 3,158

Operating income increased \$9.3 million, or 20%, to \$56.8 million for the year ended December 31, 2007 from \$47.5 million for 2006, on a 13% increase in revenues in 2007.

Operating income for the Instrumentation and Thermal Fluid Controls Products segment decreased \$1.4 million to \$26.3 million compared to the year ended December 31, 2006. While revenues increased 10%, operating margin declined as our businesses in this segment were hampered by higher raw material costs, especially stainless steel and brass, manufacturing inefficiencies, and costs to counteract decreased vendor responsiveness and increased litigation costs associated with asbestos-related claims. The French business, Sart, which was sold in December 2006, had recorded a \$0.2 million profit for the 2006 period owned by us.

Operating income for the Energy Products segment increased \$14.6 million, or 40% for the year ended December 31, 2007 compared to the same period in 2006. Operating margins increased 280 basis points to 15.7% on a revenue increase of 16%, compared to 2006. The Energy Products Segment increased operating income benefited from a higher volume of shipments, price increases to customers, further foreign sourcing that reduced cost of goods sold as well as the incremental contribution from our 2006 acquisition of Sagebrush.

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Interest Expense, Net

Interest expense, net, decreased \$2.1 million to \$3.0 million for 2007 compared to \$5.1 million for 2006. The decrease in interest expense, net was primarily due to \$15.0 million lower outstanding balance of our 8.23% senior unsecured notes that were fully paid in October 2006 and steadily reduced borrowings during 2007 against our revolving credit facility.

Other Income, Net

Other income, net was a \$1.3 million gain for the year ended December 31, 2007 compared to \$0.1 million expense in the same period of 2006. The difference in the amounts of other income was largely the 2007 gain on the sale of an investment in a small European business within our Instrumentation and Thermal Fluid Control Products segment for \$1.6 million.

Provision for Income Taxes

The effective tax rate was 31.1% for the year ended December 31, 2007 compared to 30.6% for the same period of 2006. The rate increase was the net result of the expiration of the extraterritorial income exclusion in 2006, proportionally greater income in 2007 from higher taxed jurisdictions partially offset by revaluation of deferred tax assets and liabilities as a result of in foreign tax law and lower statutory rates in Germany, the United Kingdom and Italy.

Net Income

Net income increased \$8.6 million to \$37.9 million for the year ended December 31, 2007 compared to \$29.3 million for 2006. This increase is primarily attributable to: increased profitability of our Energy Products segment, incremental contributions from two acquisitions in February 2006, gains from the sale of a small European business and a former site in China, and lower interest expense partially offset by higher production, selling, and asbestos-related litigation costs incurred by a subsidiary in our Instrumentation and Thermal Fluid Products segment and higher corporate expenses.

Table of Contents**Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005**

The following tables set forth the results of operations, percentage of net revenue and the period-to-period percentage change in certain financial data for the year ended December 31, 2006 and December 31, 2005:

	December 31, 2006		Year Ended December 31, 2005		% Change
	(Dollars in thousands)				
Net revenues	\$ 591,711	100.0%	\$ 450,531	100.0%	31.3%
Cost of revenues	418,803	70.8	317,856	70.6	31.8
Gross profit	172,908	29.2	132,675	29.4	30.3
Selling, general and administrative expenses	124,720	21.1	98,040	21.7	27.2
Special charges	678	0.1	1,630	0.4	(58.4)
Operating income	47,510	8.0	33,005	7.3	43.9
Other (income) expense:					
Interest expense, net	5,117	0.9	2,810	0.6	82.1
Other (income) expense, net	134		144		(6.9)
Total other expense	5,251	0.9	2,954	0.7	77.8
Income before income taxes	42,259	7.1	30,051	6.7	40.6
Provision for income taxes	12,931	2.2	9,668	2.1	33.8
Net income	\$ 29,328	5.0	\$ 20,383	4.5	43.9

Net Revenue

Net revenues for the year ended December 31, 2006 increased by \$141.2 million, or 31.3%, to \$591.7 million, up from \$450.5 million for the year ended December 31, 2005. The increase in net revenues for the year ended December 31, 2006 was attributable to the following:

Segment	Year Ended		Total Change (In thousands)	Acquisitions	Operations	Foreign Exchange
	December 31, 2006	December 31, 2005				
Instrumentation & Thermal Fluid Controls	\$ 312,700	\$ 251,276	\$ 61,424	\$ 48,966	\$ 10,600	\$ 1,858
Energy	279,011	199,255	79,756	40,455	33,744	5,557
Total	\$ 591,711	\$ 450,531	\$ 141,180	\$ 89,421	\$ 44,344	\$ 7,415

The Instrumentation and Thermal Fluid Controls Products segment accounted for 53% of net revenues for the year ended December 31, 2006 compared to 56% for the year ended December 31, 2005. The Energy Products segment accounted for 47% of net revenues for the year ended December 31, 2006 compared to 44% for the year ended December 31, 2005.

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Instrumentation and Thermal Fluid Controls Products revenues increased \$61.4 million, or 24%, for the year ended December 31, 2006 compared to the year ended December 31, 2005. The increase in revenues was the net result of several factors. Revenues increased an incremental \$35 million from the February 2006 acquisition of Hale Hamilton and by \$13 million from the acquisition of Industria in October 2005. The two acquisitions were complemented by organic increases in product sales to general industrial, power generation, aerospace, and chemical processing end markets. Incoming customer orders increased 6%, excluding Hale Hamilton and Industria, and benefited nearly every business unit, and many of our businesses benefited from higher selling prices. In 2007, management expects market conditions to remain steady for most of the general industrial, chemical processing and aerospace end markets served by this segment.

Energy Products revenues increased by \$79.8 million, or 40%, for the year ended December 31, 2006 compared to the year ended December 31, 2005. The increase in revenues was the net result of an incremental \$40 million from the February 2006 acquisition of Sagebrush. The added revenues from the Sagebrush acquisition were complemented by additional organic increases in revenues as an escalation in worldwide demand for oil and natural gas motivated producers to increase their drilling, production, and distribution facilities. Organic revenues from our North American operations increased \$25 million over 2005, and our Italian subsidiary, Pibiviesse, increased its revenues \$15 million over 2005. Pibiviesse continues to be successful in winning and fulfilling orders for large international oil and gas projects, a majority of which are for national energy companies in the Middle East.

Gross Profit

Consolidated gross profit increased \$40.2 million, or 30%, to \$172.9 million for the year ended December 31, 2006 compared to \$132.7 million for the year ended December 31, 2005. Consolidated gross margin of 29.2% for the year ended December 31, 2006 was a decrease of 20 basis points from the prior year period.

Gross profit for the Instrumentation and Thermal Fluid Controls Products segment increased \$16.4 million for the year ended December 31, 2006 compared to the prior year and was primarily the result of \$12.9 million of incremental gross profit from the February 2006 acquisition of Hale Hamilton. At our ongoing businesses, gross profit increased on higher unit volume increases related to market growth and selective customer price increases; however, these increases were offset by higher costs. The higher costs included continuing higher raw material costs, especially stainless steel and nickel-based alloys, and we were not able to fully offset these additional costs via higher prices to customers. Also, with higher capacity utilization at critical vendors, we spent additional amounts in 2006 to counteract decreased vendor responsiveness and lengthened lead times to receive certain critical parts. Further, we experienced lower factory productivity from re-organizing production flow in three of this segment's U.S. plants. Measures being enacted to counter these factors include outsourcing and foreign-sourcing to lower the cost of goods sold, focusing lean manufacturing priorities to achieve more linear and efficient production levels, and ensuring predictable flow of inventory from global suppliers.

Gross profit for the Energy Products segment increased \$23.8 million for the year ended December 31, 2006 compared to the year ended December 31, 2005. The gross profit increase was the net effect of: \$15.5 million from higher sales by existing business units and \$8.3 million from the 2006 acquisition of

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Sagebrush. The operational improvements that have led to the increase in gross profit from our ongoing businesses included: higher unit shipments to meet the strong global demand, customer price increases, savings from facility consolidations in 2005, further increases in foreign-sourcing which helped to lower cost of goods sold, and improved linearity in production activities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$26.7 million, or 27%, to \$124.7 million for the year ended December 31, 2006 compared to \$98.0 million for the year ended December 31, 2005. Selling, general and administrative expenses were 21.1% of revenues for the year ended December 31, 2006, a decrease of 70 basis points from 2005.

Selling, general and administrative expenses for the Instrumentation and Thermal Fluid Controls Products segment increased by \$17.4 million, including \$8.9 million of incremental expense from our February 2006 acquisition of Hale Hamilton. In addition, certain of our ongoing businesses invested in sales efforts and product engineering in 2006 to pursue sales prospects in fast growing geographies and key customer projects.

Selling, general and administrative expenses for the Energy Products segment increased \$7.3 million, including \$4.2 million of incremental expense from our February 2006 acquisition of Sagebrush. This segment also incurred higher commissions and selling expense related to its nearly 20% organic revenue growth and its near record backlog of \$172 million as of December 31, 2006.

Corporate general and administrative expenses increased \$1.8 million to \$15.9 million for the year ended December 31, 2006 compared to \$13.9 million the prior year. The majority of the net increase from 2005 was from higher stock-based compensation costs. We adopted the new accounting pronouncement, (FAS 123(R)) effective January 1, 2006, requiring the expensing of stock options. The impact of this new accounting pronouncement was an additional pretax expense of \$1.2 million or \$0.05 per diluted share in 2006. We also incurred an incremental pretax cost of \$0.7 million or \$0.03 per diluted share for restricted share units granted in 2006. Other corporate expense increases for staffing were offset by reductions in consulting fees, variable compensation costs and audit fees.

Special Charges

Special charges of \$0.7 million were recognized for the year ended December 31, 2006 compared to \$1.6 million for the year ended December 31, 2005. The special charges recognized as of year ended December 31, 2006 related to a pension curtailment charge of \$0.4 million incurred in connection with the freeze of our qualified noncontributory defined benefit plan, and in our Energy Products segment, severance charges of \$0.2 million incurred in closing an assembly operation and \$0.1 million related to a write down of an asset classified as held for sale.

Table of Contents**Operating Income**

The change in operating income for the year ended December 31, 2006 compared to the year ended December 31, 2005 was as follows:

Segment	Year Ended		Total Change (In thousands)	Acquisitions	Operations	Foreign Exchange
	December 31, 2006	December 31, 2005				
Instrumentation & Thermal Fluid Controls	\$ 27,658	\$ 27,842	\$ (184)	\$ 4,815	\$ (5,150)	\$ 151
Energy	36,102	19,081	17,021	4,117	11,916	988
Corporate	(16,250)	(13,918)	(2,332)		(2,324)	(8)
Total	\$ 47,510	\$ 33,005	\$ 14,505	\$ 8,932	\$ 4,442	\$ 1,131