

CIRCOR INTERNATIONAL INC  
Form 10-Q  
October 31, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2013.

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.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization) 04-3477276  
(I.R.S. Employer  
Identification No.)

c/o CIRCOR, Inc.  
30 Corporate Drive, Suite 200, Burlington, MA  
(Address of principal executive offices) 01803-4238  
(781) 270-1200  
(Zip Code)  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

As of October 22, 2013, there were 17,590,812 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

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PART I FINANCIAL INFORMATION.  
ITEM 1. FINANCIAL STATEMENTS  
CIRCOR INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share data)

	September 29, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$86,285	\$61,738
Short-term investments	98	101
Trade accounts receivable, less allowance for doubtful accounts of \$2,334 and \$1,706, respectively	151,528	150,825
Inventories	198,454	198,005
Prepaid expenses and other current assets	18,185	16,510
Deferred income tax asset	15,601	15,505
Assets held for sale	480	542
Total Current Assets	470,631	443,226
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>107,415</b>	<b>105,903</b>
<b>OTHER ASSETS:</b>		
Goodwill	76,066	77,428
Intangibles, net	42,728	45,157
Deferred income tax asset	22,600	30,064
Other assets	5,923	8,203
<b>TOTAL ASSETS</b>	<b>\$725,363</b>	<b>\$709,981</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$78,112	\$80,361
Accrued expenses and other current liabilities	59,674	67,235
Accrued compensation and benefits	30,575	26,540
Income taxes payable	2,610	393
Notes payable and current portion of long-term debt	6,667	7,755
Total Current Liabilities	177,638	182,284
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<b>43,250</b>	<b>62,729</b>
<b>DEFERRED INCOME TAXES</b>	<b>10,037</b>	<b>10,744</b>
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>35,380</b>	<b>35,977</b>
<b>CONTINGENCIES AND COMMITMENTS (See Note 10)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value; 29,000,000 shares authorized; 17,590,312 and 17,445,687 shares issued and outstanding at September 29, 2013 and December 31, 2012, respectively		174
Additional paid-in capital	267,562	262,744
Retained earnings	194,797	158,509
Accumulated other comprehensive loss, net of taxes	(3,477)	(3,180)
Total Shareholders' Equity	459,058	418,247
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$725,363</b>	<b>\$709,981</b>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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CIRCOR INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net revenues	\$214,731	\$209,804	\$643,773	\$643,946
Cost of revenues	144,593	151,109	443,679	462,823
<b>GROSS PROFIT</b>	<b>70,138</b>	<b>58,695</b>	<b>200,094</b>	<b>181,123</b>
Selling, general and administrative expenses	46,392	44,314	139,561	134,562
Impairment charges	—	10,348	—	10,348
Special charges / (recoveries)	(190	) 1,377	3,441	1,377
<b>OPERATING INCOME</b>	<b>23,936</b>	<b>2,656</b>	<b>57,092</b>	<b>34,836</b>
Other (income) expense:				
Interest income	(67	) (101	) (189	) (262
Interest expense	812	1,223	2,559	3,482
Other expense (income), net	568	564	1,807	887
<b>TOTAL OTHER EXPENSE</b>	<b>1,313</b>	<b>1,686</b>	<b>4,177</b>	<b>4,107</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>22,623</b>	<b>970</b>	<b>52,915</b>	<b>30,729</b>
Provision (benefit) for income taxes	4,903	(899	) 14,619	9,138
<b>NET INCOME</b>	<b>\$17,720</b>	<b>\$1,869</b>	<b>\$38,296</b>	<b>\$21,591</b>
Earnings per common share:				
Basic	\$1.01	\$0.11	\$2.18	\$1.24
Diluted	\$1.00	\$0.11	\$2.18	\$1.24
Weighted average number of common shares outstanding:				
Basic	17,582	17,433	17,553	17,391
Diluted	17,667	17,467	17,602	17,436
Dividends paid per common share	\$0.0375	\$0.0375	\$0.1125	\$0.1125

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CIRCOR INTERNATIONAL, INC.  
 STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)  
 (In thousands)  
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
	2013	2012	2013	2012
Net income	\$17,720	\$ 1,869	\$38,296	\$ 21,591
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	8,236	7,670	(295	) 802
Other comprehensive income (loss)	8,236	7,670	(295	) 802
COMPREHENSIVE INCOME (LOSS)	\$25,956	\$ 9,539	\$38,001	\$ 22,393

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CIRCOR INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Nine Months Ended	
	September 29, 2013	September 30, 2012
<b>OPERATING ACTIVITIES</b>		
Net income	\$38,296	\$21,591
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,943	11,765
Amortization	2,273	2,823
Payment for Leslie bankruptcy settlement	—	(1,000 )
Impairment charges	—	10,348
Compensation expense of share-based plans	3,343	3,409
Tax effect of share-based compensation	(536 )	573
(Gain) loss on property, plant and equipment	(70 )	1,148
Gain on return of acquisition purchase price	(3,400 )	—
Change in operating assets and liabilities, net of effects from business acquisitions:		
Trade accounts receivable	493	(123 )
Inventories	(33 )	8,586
Prepaid expenses and other assets	193	(2,110 )
Accounts payable, accrued expenses and other liabilities	1,259	(26,178 )
Net cash provided by operating activities	53,761	30,832
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(13,579 )	(14,097 )
Proceeds from the sale of property, plant and equipment	348	200
Business acquisitions, return of purchase price	3,400	—
Net cash used in investing activities	(9,831 )	(13,897 )
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	104,626	170,795
Payments of long-term debt	(124,351 )	(192,040 )
Dividends paid	(2,011 )	(1,997 )
Proceeds from the exercise of stock options	1,843	348
Tax effect of share-based compensation	536	(573 )
Net cash used in financing activities	(19,357 )	(23,467 )
Effect of exchange rate changes on cash and cash equivalents	(27 )	653
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>24,547</b>	<b>(5,879 )</b>
Cash and cash equivalents at beginning of period	61,738	54,855
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$86,285</b>	<b>\$48,976</b>
Supplemental Cash Flow Information:		
Cash paid during the period presented for:		
Income taxes	\$5,463	\$12,959
Interest	\$3,132	\$2,333

The accompanying notes are an integral part of these unaudited consolidated financial statements.



CIRCOR INTERNATIONAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(1) Basis of Presentation

The accompanying unaudited, consolidated financial statements have been prepared according to the rules and regulations of the United States Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments, which include normal recurring adjustments, necessary for a fair presentation of the consolidated balance sheets, consolidated statements of income and consolidated statements of cash flows of CIRCOR International, Inc. ("CIRCOR", the "Company", "us", "we" or "our") for the periods presented. We prepare our interim financial information using the same accounting principles as we use for our annual audited financial statements. Certain information and note disclosures normally included in the annual audited financial statements have been condensed or omitted in accordance with prescribed SEC rules. We believe that the disclosures made in our consolidated financial statements and the accompanying notes are adequate to make the information presented not misleading.

The consolidated balance sheet at December 31, 2012 is as reported in our audited financial statements as of that date. Our accounting policies are described in the notes to our December 31, 2012 financial statements, which were included in our Annual Report filed on Form 10-K. We recommend that the financial statements included in our Quarterly Report on Form 10-Q be read in conjunction with the financial statements and notes included in our Annual Report filed on Form 10-K for the year ended December 31, 2012.

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 13-week, 26-week and 39-week periods which generally end on the Sunday nearest the calendar quarter-end date. Operating results for the three and nine months ended September 29, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

(2) Summary of Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements for the three and nine months ended September 29, 2013 are consistent with those discussed in Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("AOCI"). The new ASU requires entities to disclose in a single location (either on the face of the financial statement that reports net income or in the notes) the effects of reclassifications out of accumulated other comprehensive income. For items reclassified out of AOCI in their entirety into net income, entities must disclose the effect of the reclassification on each affected net income item. For AOCI reclassification items that are not reclassified in their entirety into net income, entities must provide a cross reference to other required U.S. GAAP disclosures. The new disclosure requirements are effective for annual reporting after December 15, 2012, and interim periods within those years. No reclassifications out of AOCI were made by the Company for the three and nine months ended September 29, 2013 or the three and nine months ended September 30, 2012 and therefore no additional AOCI disclosure is presented in our Quarterly Report on Form 10-Q.

In July 2013, FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new ASU requires companies to present an unrecognized tax benefit as a reduction of a deferred tax asset for a tax loss or credit carryforward on the balance

sheet when either: (A) the tax law requires the company to use the tax loss or credit carryforward to satisfy amounts payable upon disallowance of the tax position, or (B) the tax loss or credit carryforward is available to satisfy amounts payable upon disallowance of the tax position, and the company intends to use the deferred tax asset for that purpose. The new disclosure requirements are effective for annual reporting after December 15, 2013 and interim periods within those years. We do not believe the adoption of this update will have a material impact on our financial statements.

There were no additional new accounting pronouncements adopted during the nine months ended September 29, 2013 that had a material impact on our financial statements.

Subsequent events - On October 31, 2013, we announced an organizational restructuring under which we will simplify the manner in which we manage our businesses. Under this restructuring we will consolidate our group structure from three groups to two, reducing management layers and administrative expenses. Consistent with our new management structure we intend to begin reporting in two segments during the fourth quarter of 2013. The first segment will be 'Energy,' which will include all of the businesses from the existing Energy segment and the majority of the current 'Flow Technologies' businesses. The second segment will be 'Aerospace and Defense,' which will include all of the current Aerospace segment businesses plus a few primarily defense-oriented businesses currently in the Flow Technologies segment.

We expect to complete this reorganization in the fourth quarter of 2013 and expect to incur special charges of between \$2.6 million to \$3.0 million associated with this reorganization during the fourth quarter of 2013.

### (3) Share-Based Compensation

As of September 29, 2013, we have one share-based compensation plan. The Amended and Restated 1999 Stock Option and Incentive Plan (the "1999 Stock Plan"), which was adopted by our Board of Directors and approved by our shareholders, permits the granting of the following types of awards to our officers, other employees and non-employee directors: incentive stock options; non-qualified stock options; deferred stock awards; restricted stock awards; unrestricted stock awards; performance share awards; cash-based awards; stock appreciation rights and dividend equivalent rights. The 1999 Stock Plan provides for the issuance of up to 3,000,000 shares of common stock (subject to adjustment for stock splits and similar events). New options granted under the 1999 Stock Plan could have varying vesting provisions and exercise periods. Options granted vest in periods ranging from one year to five years and expire ten years after the grant date. Restricted stock units granted generally vest from three years to six years. Vested restricted stock units will be settled in shares of our common stock. As of September 29, 2013, there were 279,819 stock options (including the April 9, 2013 CEO stock option award noted below) and 274,675 restricted stock units outstanding. In addition, there were 397,730 shares available for grant under the 1999 Stock Plan as of September 29, 2013. As of September 29, 2013, there were no outstanding restricted stock units that contain rights to nonforfeitable dividend equivalents and are considered participating securities that are included in our computation of basic and fully diluted earnings per share. There is no difference in the earnings per share amounts between the two class method and the treasury stock method, which is why we continue to use the treasury stock method.

For all stock options granted under the 1999 Stock Plan, the fair value of each grant was estimated at the date of grant using the Black-Scholes option pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield and employee exercise behavior. Expected volatilities utilized in the model are based on the historic volatility of the Company's stock price. The risk free interest rate is derived from the U.S. Treasury Yield curve in effect at the time of the grant.

On April 9, 2013, the Company granted stock options to purchase 200,000 shares of common stock to its newly appointed President and Chief Executive Officer, Scott A. Buckhout, at an exercise price of \$41.17 per share. This option award was not granted under the Company's 1999 Stock Plan and includes both a service period and a market vesting condition. The stock options will vest if the following stock price targets are met based on the stock price closing at or above these targets for 60 consecutive trading days:

Stock Price Target	Cumulative Vested Portion of Stock Options (in Shares)
\$50.00	50,000
\$60.00	100,000
\$70.00	150,000
\$80.00	200,000

Vested options may be exercised 25% at the time of vesting, 50% one year from the date of vesting and 100% two years from the date of vesting. On August 8, 2013, the \$50.00 Price Target was met, therefore, 50,000 options have vested and 12,500 are currently exercisable. This stock option award is being expensed utilizing a graded method and is subject to forfeiture in the event of employment termination (whether voluntary or involuntary) prior to vesting. To the extent that the market conditions above (stock price targets) are not met, those options will not vest and will forfeit 5 years from grant date. The Company used a Monte Carlo simulation option pricing model to value this option award with the following assumptions: 10 year term, expected life of 5.5 years, risk-free rate of 1.2%, expected volatility of 41.2%, and fair value of \$14.46 per share at grant date. No other options were granted during the first nine months of 2013.

We account for Restricted Stock Unit (“RSU Awards”) by expensing the weighted average fair value to selling, general and administrative expenses ratably over vesting periods generally ranging from three years to six years. During the nine months ended September 29, 2013 and September 30, 2012, we granted 130,845 and 132,471 RSU Awards with approximate fair values of \$41.96 and \$33.54 per RSU Award, respectively.

The CIRCOR Management Stock Purchase Plan, which is a component of the 1999 Stock Plan, provides that eligible employees may elect to receive restricted stock units in lieu of all or a portion of their pre-tax annual incentive bonus and, in some cases, make after-tax contributions in exchange for restricted stock units (“RSU MSPs”). In addition, non-employee directors may elect to receive restricted stock units in lieu of all or a portion of their annual directors’ fees. Each RSU MSP represents a right to receive one share of our common stock after a three year vesting period. RSU MSPs are granted at a discount of 33% from the fair market value of the shares of our common stock on the date of grant. This discount is amortized as compensation expense, to selling, general and administrative expenses, over a four year period. A total of 28,463 and 34,534 RSU MSPs with per unit discount amounts representing fair values of \$13.90 and \$10.81 were granted under the CIRCOR Management Stock Purchase Plan during the nine months ended September 29, 2013 and September 30, 2012, respectively.

Compensation expense related to our share-based plans for the nine month periods ended September 29, 2013, and September 30, 2012 was \$3.5 million and \$3.3 million, respectively, and was recorded as selling, general and administrative expense. As of September 29, 2013, there was \$9.0 million of total unrecognized compensation costs related to our outstanding share-based compensation arrangements (inclusive of the April 9, 2013 CEO option award). That cost is expected to be recognized over a weighted average period of 2.2 years.

The weighted average contractual term for stock options outstanding and options exercisable as of September 29, 2013 was 8.9 years and 7.4 years, respectively. The aggregate intrinsic value of stock options exercised during the nine months ended September 29, 2013 was \$1.1 million and the aggregate intrinsic value of stock options outstanding and options exercisable as of September 29, 2013 was \$6.5 million and \$1.0 million, respectively.

The aggregate intrinsic value of RSU Awards settled during the nine months ended September 29, 2013 was \$3.6 million and the aggregate intrinsic value of RSU Awards outstanding and RSU Awards vested and deferred as of September 29, 2013 was \$12.7 million and \$0.0 million, respectively.

The aggregate intrinsic value of RSU MSPs settled during the nine months ended September 29, 2013 was \$0.7 million and the aggregate intrinsic value of RSU MSPs outstanding and RSU MSPs vested and deferred as of September 29, 2013 was \$2.6 million and \$0.0 million, respectively.

#### (4) Inventories

Inventories consist of the following (in thousands):

	September 29, 2013	December 31, 2012
Raw materials	\$53,429	\$63,104
Work in process	99,153	86,564
Finished goods	45,872	48,337
	\$198,454	\$198,005

#### (5) Goodwill and Intangible Assets

The following table shows goodwill, by segment, as of September 29, 2013 (in thousands):

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	Energy	Aerospace	Flow Technologies	Consolidated Total
Goodwill as of December 31, 2012	\$51,526	\$22,121	\$ 3,781	\$ 77,428
Currency translation adjustments	(1,169 )	42	(235 )	(1,362 )
Goodwill as of September 29, 2013	\$50,357	\$22,163	\$ 3,546	\$ 76,066

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The table below presents gross intangible assets and the related accumulated amortization as of September 29, 2013 (in thousands):

	Gross Carrying Amount	Accumulated Amortization
Patents	\$6,078	\$(5,671 )
Non-amortized intangibles (primarily trademarks and trade names)	23,601	—
Customer relationships	34,032	(18,088 )
Backlog	1,114	(1,114 )
Other	7,479	(4,703 )
Total	\$72,304	\$(29,576 )
Net carrying value of intangible assets	42,728	

The table below presents estimated remaining amortization expense for intangible assets recorded as of September 29, 2013 (in thousands):

	2013	2014	2015	2016	2017	After 2017
Estimated amortization expense	\$774	\$3,066	\$3,045	\$2,760	\$2,626	\$6,856

## (6) Segment Information

The following table presents certain reportable segment information (in thousands):

	Energy	Aerospace	Flow Technologies	Corporate / Eliminations	Consolidated Total
Three Months Ended September 29, 2013					
Net revenues	\$108,474	\$36,483	\$69,775	\$—	\$214,731
Inter-segment revenues	410	32	126	(568)	) —
Operating income (loss)	21,620	3,002	8,334	(9,020)	) 23,936
Interest income					(67)
Interest expense					812
Other expense, net					568
Income before income taxes					\$22,623
Identifiable assets	410,975	180,025	223,737	(89,374)	) 725,363
Capital expenditures	1,381	2,071	906	489	4,847
Depreciation and amortization	1,651	1,167	1,508	346	4,672
Three Months Ended September 30, 2012					
Net revenues	\$109,968	\$31,795	\$68,041	\$—	\$209,804
Inter-segment revenues	577	10	194	(781)	) —
Operating income (loss)	11,236	(10,284)	) 8,873	(7,169)	) 2,656
Interest income					(101)
Interest expense					1,223
Other expense, net					564
Income before income taxes					\$970
Identifiable assets	366,730	180,547	204,107	(53,748)	) 697,636
Capital expenditures	647	686	1,856	125	3,314
Depreciation and amortization	1,713	1,233	1,543	378	4,867
Nine Months Ended September 29, 2013					
Net revenues	\$316,027	\$111,986	\$215,760	\$—	\$643,773
Inter-segment revenues	1,136	56	526	(1,718)	) —
Operating income (loss)	46,233	5,469	28,335	(22,945)	) 57,092
Interest income					(189)
Interest expense					2,559
Other expense, net					1,807
Income before income taxes					\$52,915
Identifiable assets	410,975	180,025	223,737	(89,374)	) 725,363
Capital expenditures	5,459	4,236	3,207	677	13,579
Depreciation and amortization	4,943	3,588	4,599	1,085	14,215
Nine Months Ended September 30, 2012					
Net revenues	\$332,759	\$105,776	\$205,411	\$—	\$643,946
Inter-segment revenues	1,477	41	589	(2,107)	) —
Operating income (loss)	32,744	(3,007)	) 25,503	(20,404)	) 34,836
Interest income					(262)
Interest expense					3,482
Other expense, net					887
Income before income taxes					\$30,729
Identifiable assets	366,730	180,547	204,107	(53,748)	) 697,636



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Capital expenditures	2,397	2,263	7,600	1,837	14,097
Depreciation and amortization	5,546	3,672	4,348	1,022	14,588

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Each reporting segment is individually managed and has separate financial results that are reviewed by our chief operating decision-maker. Each segment contains related products and services particular to that segment. For further discussion of the products included in each segment refer to Note (1) of the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

In calculating operating income for each reporting segment, substantial administrative expenses incurred at the corporate level for the benefit of other reporting segments were allocated to the segments based upon specific identification of costs, employment related information or net revenues.

Corporate / Eliminations are reported on a net "after allocations" basis. Inter-segment intercompany transactions affecting net operating profit have been eliminated within the respective operating segments.

The operating loss reported in the Corporate / Eliminations column in the preceding table consists primarily of the following corporate expenses: compensation and fringe benefit costs for executive management and other corporate staff; corporate development costs (relating to mergers and acquisitions); human resource development and benefit plan administration expenses; legal, accounting and other professional and consulting fees; facilities, equipment and maintenance costs; and travel and various other administrative costs. The above costs are incurred in the course of furthering the business prospects of the Company and relate to activities such as: implementing strategic business growth opportunities; corporate governance; risk management; treasury; investor relations and shareholder services; regulatory compliance; and stock transfer agent costs.

The total assets for each operating segment have been reported as the Identifiable Assets for that segment, including inter-segment intercompany receivables, payables and investments in other CIRCOR businesses. Identifiable assets reported in Corporate / Eliminations include both corporate assets, such as cash, deferred taxes, prepaid and other assets, fixed assets, as well as the elimination of all inter-segment intercompany assets. The elimination of intercompany assets results in negative amounts reported in Corporate / Eliminations for Identifiable Assets for the periods ended September 29, 2013 and September 30, 2012. Corporate Identifiable Assets after elimination of intercompany assets were \$36.8 million and \$41.8 million as of September 29, 2013 and September 30, 2012, respectively.

(7) Earnings Per Common Share (in thousands, except per share amounts):

	Three Months Ended September 29, 2013			September 30, 2012		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic Earnings Per Common Share ("EPS")	\$ 17,720	17,582	\$ 1.01	\$ 1,869	17,433	\$ 0.11
Dilutive securities, common stock options	—	85	(0.01 )	—	34	0.00
Diluted EPS	\$ 17,720	17,667	\$ 1.00	\$ 1,869	17,467	\$ 0.11
	Nine Months Ended September 29, 2013			September 30, 2012		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS	\$ 38,296	17,553	\$ 2.18	\$ 21,591	17,391	\$ 1.24
Dilutive securities, common stock options	—	49	0.00	—	45	0.00
Diluted EPS	\$ 38,296	17,602	\$ 2.18	\$ 21,591	17,436	\$ 1.24

There were 133,218 and 396,849 anti-dilutive stock options, RSU Awards, and RSU MSPs for the nine months ended September 29, 2013 and September 30, 2012, respectively.

## (8) Financial Instruments

## Fair Value

The carrying amounts of cash and cash equivalents, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments. Short-term investments (principally guaranteed investment certificates) are carried at cost which approximates fair value at the balance sheet date. The fair value of our variable rate debt approximates its carrying amount.

## Foreign Currency Exchange Risk

The Company is exposed to certain risks relating to its ongoing business operations including foreign currency exchange rate risk and interest rate risk. The Company currently uses derivative instruments to manage foreign currency risk on certain business transactions denominated in foreign currencies. To the extent the underlying transactions hedged are completed, these forward contracts do not subject us to significant risk from exchange rate movements because they offset gains and losses on the related foreign currency denominated transactions. These forward contracts do not qualify as hedging instruments and, therefore, do not qualify for fair value or cash flow hedge treatment. Any unrealized gains and losses on our contracts are recognized as a component of other expense in our consolidated statements of income.

As of September 29, 2013, we had twenty-three forward contracts with total values as follows (in thousands):

Currency	Number	Contract Amount	Currency
Canadian Dollar/Euro	3	115	Canadian Dollars
U.S. Dollar/Euro	15	13,007	U.S. Dollars
Brazilian Real/Euro	5	0	Brazilian Reais

This compares to twelve forward contracts as of December 31, 2012. The fair value asset of the derivative forward contracts as of September 29, 2013 was approximately \$0.1 million and was included in prepaid expenses and other current assets on our balance sheet. This compares to a fair value asset of approximately \$0.5 million that was included in prepaid expenses and other current assets on our balance sheet as of December 31, 2012. The unrealized foreign exchange gain (loss) for the nine month periods ended September 29, 2013 and September 30, 2012 was less than \$0.5 million and \$0.5 million, respectively. Unrealized foreign exchange gains (losses) are included in other (income) expense in our consolidated statements of income.

We have determined that the majority of the inputs used to value our foreign currency forward contracts fall within Level 2 of the fair value hierarchy, found under Accounting Standards Codification (“ASC”) Topic 820. The credit valuation adjustments, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties are Level 3 inputs. However, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our foreign currency forward contracts and determined that the credit valuation adjustments are not significant to the overall valuation. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

## (9) Guarantees and Indemnification Obligations

As permitted under Delaware law, we have agreements whereby we indemnify certain of our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The term of the indemnification period is for the officer’s or director’s lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. However, we have directors’ and officers’ liability insurance policies that limit our exposure for events covered under the policies and

should enable us to recover a portion of any future amounts paid. As a result of the coverage under these insurance policies, we believe the estimated fair value of these indemnification agreements based on Level 3 criteria as described under ASC Topic 820 is minimal and, therefore, we have no liabilities recorded from those agreements as of September 29, 2013.

We record provisions for the estimated cost of product warranties, primarily from historical information, at the time product revenue is recognized. While we engage in extensive product quality programs and processes, our warranty obligation is affected by product failure rates, utilization levels, material usage, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to us. Should actual product failure rates, utilization levels, material usage, service delivery costs or supplier warranties on parts differ from our estimates, revisions to the estimated warranty liability would be required.

The following table sets forth information related to our product warranty reserves for the nine months ended September 29, 2013 (in thousands):

Balance beginning December 31, 2012	\$3,322	
Provisions	2,878	
Claims settled	(1,896	)
Currency translation adjustment	46	
Balance ending September 29, 2013	\$4,350	

#### (10) Contingencies and Commitments

Asbestos-related product liability claims continue to be filed against two of our subsidiaries—Spence Engineering Company, Inc. (“Spence”), the stock of which we acquired in 1984; and Circor Instrumentation Technologies, Inc. (f/k/a Hoke Incorporated) (“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 these 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. During the third quarter of 2011, we commenced arbitration proceedings against T.M.W. Corporation (“TMW”), the seller from which we acquired the assets of Castle Precision Industries in August 2010, seeking to recover damages from TMW for breaches of certain representations and warranties made by TMW in the Asset Purchase Agreement dated August 3, 2010 relative to such acquisition. We currently are in the discovery phase of this arbitration and now expect the actual hearings to occur in the second quarter of 2014.

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.

#### Standby Letters of Credit

We execute standby letters of credit, which include bid bonds and performance bonds, in the normal course of business to ensure our performance or payments to third parties. The aggregate notional value of these instruments was \$52.6 million at September 29, 2013. Our historical experience with these types of instruments has been good and no claims have been paid in the current or past five fiscal years. We believe that the likelihood of demand for payments relating to the outstanding instruments is remote. These instruments generally have expiration dates ranging from less than 1 month to 5 years from September 29, 2013.

The following table contains information related to standby letters of credit instruments outstanding as of September 29, 2013 (in thousands):

Term Remaining	Maximum Potential Future Payments
0–12 months	\$ 42,808
Greater than 12 months	9,821
Total	\$ 52,629

#### (11) Defined Pension Benefit Plans

We maintain two pension benefit plans, a qualified noncontributory defined benefit plan and a nonqualified, noncontributory defined benefit supplemental plan that provides benefits to certain retired highly compensated officers and employees. To date, the supplemental plan remains an unfunded plan. These plans include significant pension benefit obligations which are calculated based on actuarial valuations. Key assumptions are made in determining these obligations and related expenses,

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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.

During the three and nine months ended September 29, 2013, we made cash contributions of \$0.4 million and \$1.2 million, respectively to our qualified defined benefit pension plan. Additionally, substantially all of our U.S. employees are eligible to participate in a 401(k) savings plan. Under this plan, we make a core contribution and match a specified percentage of employee contributions, subject to certain limitations.

The components of net pension benefit expense are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Service cost-benefits earned	\$—	\$52	\$—	\$157
Interest cost on benefits obligation	491	513	1,473	1,540
Estimated return on assets	(591	) (531	) (1,773	) (1,595
Prior service cost amortization	—	—	—	—
Loss amortization	189	158	567	473
Net periodic cost of defined pension benefit plans	\$89	\$192	\$267	\$575

#### (12) Income Taxes

As required by the Income Tax Topic of the ASC, at September 29, 2013 and at December 31, 2012, we had \$1.8 million and \$2.0 million of unrecognized tax benefits, respectively, of which \$0.9 million and \$1.1 million, respectively, would affect our effective tax rate if recognized in any future period.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of September 29, 2013, we had approximately \$0.9 million of accrued interest related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and in various state, local and foreign jurisdictions. The Company is no longer subject to examination by the Internal Revenue Service for years prior to 2010 and is no longer subject to examination by the tax authorities in foreign and state jurisdictions prior to 2006. The Company is under examination for income tax filings in various state and foreign jurisdictions.

For 2013, we expect an effective income tax rate of approximately 28.0%. The effective tax rate was 21.7% for the quarter ended September 29, 2013. The primary driver of this lower tax rate in the quarter was foreign rate differentials, the UK tax rate change and a non-taxable gain on a foreign price purchase settlement, offset by a change in the valuation allowance.

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.

The Company has a net domestic deferred income tax asset and a net foreign deferred tax asset. With regard to deferred income tax assets, we maintained a total valuation allowance of \$14.2 million at September 29, 2013 and \$13.5 million at December 31, 2012 due to uncertainties related to our ability to utilize certain of these assets, primarily consisting of certain foreign tax credits, foreign and state net operating losses and state tax credits carried



forward. The valuation allowance is based 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 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. Consequently, 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. The Company has had a history of domestic and foreign taxable income, is able to avail itself of federal tax carryback provisions, has future taxable temporary differences and projects future domestic and foreign taxable income. We believe that after considering all of the available objective evidence, it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets.

### (13) Special Charges / Recoveries

During the third quarter of 2012 we announced restructuring actions in the Energy, Aerospace, and Flow Technologies segments ("2012 Announced Restructuring") including actions to consolidate facilities, shift expenses to lower cost regions, and exiting some non-strategic product lines.

On July 12, 2013 we reached a settlement on the SF Valves arbitration ("SF Settlement") and have received a refund of a portion of the purchase price which resulted in a gain of approximately \$3.2 million during the third quarter of 2013. This gain was recorded as a special recovery during the third quarter of 2013.

On August 1, 2013 we announced additional restructuring actions associated with our Aerospace and Flow Technologies segments ("August 1, 2013 Announced Restructuring") including actions to consolidate facilities, shift expenses to lower cost regions, and exiting some non-strategic product lines.

In addition during the third quarter of 2013 we announced that our Chief Financial Officer would be retiring and recorded a \$0.6 million ("CFO retirement") special charge for associated salary continuation and bonus.

During the three and nine months ended September 30, 2012 we incurred \$1.4 million in special charges (recoveries) associated with the 2012 Announced Restructuring actions. The following table summarizes our special charges by expense type and business segment (in thousands):

	Special Charges / Recoveries				
	As of and for the three months ended September 30, 2012				
	Energy	Aerospace	Flow Technologies	Corporate	Total
Accrued special charges as of July 1, 2012					\$—
Facility and professional fee related expenses	1,093	209	—	—	1,302
Employee-related expenses	—	30	45	—	75
Total restructuring related special charges	\$ 1,093	\$ 239	\$ 45	\$—	\$ 1,377
Special charges paid					(1,377 )
Accrued special charges as of September 30, 2012					\$—

	Special Charges / Recoveries				
	As of and for the nine months ended September 30, 2012				
	Energy	Aerospace	Flow Technologies	Corporate	Total
Accrued special charges as of December 31, 2011					\$—
Facility and professional fee related expenses	1,093	209	—	—	1,302
Employee-related expenses	—	30	45	—	75
Total restructuring related special charges	\$ 1,093	\$ 239	\$ 45	\$—	\$ 1,377
Special charges paid					(1,377 )
Accrued special charges as of September 30, 2012					\$—

During the three and nine months ended September 29, 2013 we incurred \$(0.2) million and \$3.4 million in special charges (recoveries) associated with the 2012 Announced Restructuring actions, August 1, 2013 Announced

Restructuring actions, SF Settlement, and CFO Retirement. The following table summarizes our special charges by expense type and business segment (in thousands):

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Special Charges / Recoveries

As of and for the three months ended September 29, 2013

	Energy	Aerospace	Flow Technologies	Corporate	Total
Accrued special charges as of June 30, 2013					\$592
Facility and professional fee related expenses	—	800	536	—	1,336
Employee-related expenses	90	337	598	—	1,025
Total restructuring related special charges	\$90	\$1,137	\$ 1,134	\$—	\$2,361
CFO retirement charges	—	—	—	600	600
Total Special Charges Incurred During Period	\$90	\$1,137	\$ 1,134	\$600	\$2,961
Special charges paid					(1,650 )
Accrued special charges as of September 29, 2013					\$1,903
Total Special Charges Incurred During Period	90	1,137	1,134	600	2,961
SF Settlement special (recoveries)	(3,151 )	—	—	—	(3,151 )
Special Charges / (Recoveries) During Period	\$(3,061 )	\$1,137	\$ 1,134	\$600	\$(190 )

Special Charges / Recoveries

As of and for the nine months ended September 29, 2013

	Energy	Aerospace	Flow Technologies	Corporate	Total
Accrued special charges as of December 31, 2012					\$800
Facility and professional fee related expenses	811	2,638	563	—	4,012
Employee-related expenses	391	910	680	—	1,981
Total restructuring related special charges	\$1,202	\$3,548	\$ 1,243	\$—	\$5,993
CFO retirement charges	—	—	—	600	600
Total Special Charges Incurred During Period	\$1,202	\$3,548	\$ 1,243	\$600	\$6,593
Special charges paid					(5,490 )
Accrued special charges as of September 29, 2013					\$1,903
Total Special Charges Incurred During Period	1,202	3,548	1,243	600	6,593
SF Settlement special (recoveries)	(3,152 )	—	—	—	(3,152 )
Special Charges / (Recoveries) During Period	\$(1,950 )	\$3,548	\$ 1,243	\$600	\$3,441

The following table summarizes our 2012 Announced Restructuring action special charges incurred from the end of the third quarter of 2012 through September 29, 2013.

2012 Announced Restructurings Incurred as of September 29, 2013

	Energy	Aerospace	Flow Technologies	Corporate	Total
Facility and professional fee related expenses - incurred to date	2,113	2,869	162	—	5,144
Employee-related expenses - incurred to date	896	925	191	—	2,012
Total restructuring related special charges - incurred to date	\$3,009	\$3,794	\$ 353	\$—	\$7,156

Also, in connection with the 2012 Announced Restructuring special charges noted above, we recorded \$1.2 million and \$3.0 million of repositioning related inventory obsolescence charges since the third quarter of 2012, for the Energy and Aerospace segments, respectively.



We do not anticipate any additional special charges to be incurred associated with the 2012 Announced Restructurings.

The following table summarizes our August 1, 2013 Announced Restructuring action special charges incurred during the third quarter of 2013. Charges with this action began in the third quarter of 2013.

	August 1, 2013 Announced Restructurings Incurred as of September 29, 2013				
	Energy	Aerospace	Flow Technologies	Corporate	Total
Facility and professional fee related expenses - incurred to date	—	80	536	—	616
Employee-related expenses - incurred to date	—	171	598	—	769
Total restructuring related special charges - incurred to date	\$—	\$251	\$ 1,134	\$—	\$1,385

Additional special charges that we expect to be recorded with the August 1, 2013 Announced Restructuring action are included in the projected amounts below.

On October 31, 2013 we announced an organizational restructuring under which we will simplify the manner in which we manage our businesses. Under this restructuring we will consolidate our group structure from three groups to two, reducing management layers and administrative expenses. We expect to complete this reorganization in the fourth quarter of 2013 and expect to incur special charges of between \$2.6 million to \$3.0 million associated with this reorganization during the fourth quarter of 2013.

We expect to incur Restructuring related special charges between \$5.3 million and \$6.0 million during Q4 2013 (between \$0.8 million and \$0.9 million for the Energy segment, between \$1.3 million and \$1.4 million for the Aerospace segment, and between \$3.2 million and \$3.7 million for the Flow Technologies segment). We expect to incur additional Restructuring related special charges between \$3.9 million and \$4.3 million during the first half of 2014 (between \$0.5 million and \$0.6 million for the Aerospace segment and between \$3.4 million and \$3.7 million for the Flow Technologies segment) to complete these restructuring actions. These restructuring activities are expected to be funded with cash generated from operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This Quarterly Report on Form 10-Q 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 SEC. The words “may,” “hope,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “continue,” “could,” “may” and “might” are 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 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, any adverse changes in governmental policies, variability of raw material and component pricing, changes in our suppliers' performance, fluctuations in foreign currency exchange rates, our ability to hire and maintain key personnel, our ability to continue operating our manufacturing facilities at efficient levels including our ability to prevent cost overruns and 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, fluctuations in interest rates, our ability to continue to successfully defend product liability actions including asbestos-related claims, our ability to realize savings anticipated to result from the restructuring activities discussed herein, as well as the uncertainty associated with the current worldwide economic conditions and the 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 our Annual Report filed on Form 10-K for the year ended December 31, 2012, together with subsequent reports we have filed with the SEC on Forms 10-Q and 8-K, which may supplement, modify, supersede, or update those risk factors. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Company Overview

CIRCOR International, Inc. designs, manufactures and markets valves and other highly engineered products for markets including energy, oil & gas, power generation, and aerospace. Within our major product groups, we develop, manufacture, sell and service a portfolio of fluid-control products, subsystems and technologies that enable us to fulfill our customers' unique fluid-control application needs.

We have organized our reporting structure into three segments: Energy, Aerospace, and Flow Technologies. Our Energy segment primarily serves large international energy projects, short-cycle North American energy, and the pipeline transmission equipment and services end-markets. Our Aerospace segment primarily serves the commercial and military aerospace end-markets. Our Flow Technologies segment serves our broadest variety of end-markets, including power generation, industrial and process markets, chemical and refining, and industrial and commercial HVAC/steam. The Flow Technologies segment also provides products specifically designed for U.S. and international Navy applications.

On October 31, 2013, we announced an organizational restructuring under which we will simplify the manner in which we manage our businesses. Under this restructuring we will consolidate our group structure from three groups

to two during the fourth quarter of 2013. Consistent with our new management structure we intend to begin reporting in two segments during the fourth quarter of 2013. The first segment will be 'Energy,' which will include all of the businesses from the existing Energy segment and the majority of the current 'Flow Technologies' businesses. The second segment will be 'Aerospace and Defense,' which will include all of the current Aerospace segment businesses plus a few primarily defense-oriented businesses currently in the Flow Technologies segment.

We have been enhancing both our domestic and our worldwide operations through the development of the CIRCOR Business System. The CIRCOR Business System is based on lean operating techniques designed to continuously improve product and work flow and drive waste out of our manufacturing, sales, procurement and office-related systems ("Lean"). Within the CIRCOR Business System, we are committed to attracting, developing and refining the best talent and pursuing continuous improvement in all aspects of our business and operations. The CIRCOR Business System promotes improved shareholder value through the enhancement of core competencies across all of our business units, including continuous improvement, talent



acquisition, development and retention, acquisition integration and factory restructuring, global business and supply chain development and product innovation.

Our primary objective is to enhance shareholder value through improvement of operating margins on existing businesses as well as profitable growth of our diversified, multi-national company utilizing the CIRCOR Business System. We are working to accomplish these objectives by focusing on factory repositioning activities and by winning highly engineered project and product opportunities in key end-markets that have above average growth. These end-markets include the upstream and midstream oil and gas, power generation, process and aerospace markets. In capitalizing on these opportunities, we are using the CIRCOR Business System to excel at:

- Lean Enterprise, Six Sigma and Continuous Improvement;
- Talent Acquisition, Development and Retention;
- Acquisition and Factory Restructuring;
- Global Business and Supply Chain Development;
- Customer Relationship Development; and
- Product Innovation.

Through organic and acquisition-based growth our three to five year objectives are to gain significant market positions in our key end-markets and build a global capability in high-growth emerging markets while improving operating margins.

#### Basis of Presentation

All significant intercompany balances and transactions have been eliminated in consolidation. We monitor our business in three segments: Energy, Aerospace and Flow Technologies.

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 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 included in our Annual Report on Form 10-K for the year ended December 31, 2012. 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.

There have been no significant changes from the methodology applied by management for critical accounting estimates previously disclosed in our most recent Annual Report on Form 10-K.

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("AOCI"). The new ASU requires entities to disclose in a single location (either on the face of the financial statement that reports net income or in the notes) the effects of reclassifications out of accumulated other comprehensive income. For items reclassified out of AOCI in their entirety into net income, entities must disclose the effect of the reclassification on

each affected net income item. For AOCI reclassification items that are not reclassified in their entirety into net income, entities must provide a cross reference to other required U.S. GAAP disclosures. The new disclosure requirements are effective for annual reporting after December 15, 2012, and interim periods within those years. No reclassifications out of AOCI were made by the Company for the three and nine months ended September 29, 2013 or the three months and nine months ended September 30, 2012 and therefore no additional AOCI disclosure is presented in our Quarterly Report on Form 10-Q.

In July 2013, FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new ASU requires companies to present an unrecognized tax benefit as a reduction of a deferred tax asset for a tax loss or credit carryforward on the balance sheet when either: (A) the tax law requires the company to use the tax loss or credit carryforward to satisfy amounts payable upon disallowance of the tax position, or (B) the tax loss or credit carryforward is available to satisfy amounts payable upon disallowance of the tax position, and the company intends to use the deferred tax asset for that purpose. The new disclosure requirements are effective for annual reporting after December 15, 2013, and interim periods within those years. We do not believe the adoption of this update will have a material impact on our financial statements.

#### Revenue Recognition

Revenue is recognized when products are delivered, title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, no significant post-delivery obligations remain, the price to the buyers is fixed or determinable and collection of the resulting receivable is reasonably assured. We have limited long-term arrangements, representing less than 2% of our revenue, requiring delivery of products or services over extended periods of time and revenue and profits on certain of these arrangements are recognized in accordance with the percentage of completion method of accounting. 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 on an item-by-item basis determined based on the difference between the cost of the inventory and estimated market value. The provision for inventory allowance is a component of our cost of revenues. Assumptions about future demand are among 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 \$198.5 million as of September 29, 2013, compared to \$198.0 million as of December 31, 2012. Our inventory allowance as of September 29, 2013 was \$24.0 million, compared with \$22.3 million as of December 31, 2012. Our provision for inventory obsolescence was \$4.2 million and \$8.4 million for the first nine months of 2013 and 2012, respectively.

If there were to be a sudden and significant decrease in demand for our products, significant price reductions, or if there were a higher incidence of inventory obsolescence for any reason, including a change in technology or customer requirements, 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.

#### Penalty Accruals

Some of our customer agreements, primarily in our project related businesses, contain late shipment penalty clauses whereby we are contractually obligated to pay consideration to our customers if we do not meet specified shipment dates. The accrual for estimated penalties is shown as a reduction of revenue and is based on several factors including historical customer settlement experience and management's assessment of specific shipment delay information. Accruals related to these potential late shipment penalties as of September 29, 2013, and December 31, 2012 were \$10.0 million and \$8.6 million, respectively. As we conclude performance under these agreements, the actual amount

of consideration paid to our customers may vary significantly from the amounts we currently have accrued.

#### Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments and trade receivables. A significant portion of our revenue and receivables are from customers who are either in or service the energy, aerospace and industrial markets. We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses. During 2012, 2011, and 2010, the Company did not experience any significant losses related to the collection of our accounts receivable. For the years ended December 31, 2012, 2011 and 2010 we had no customers from which we derived revenues that exceeded 10% of our consolidated revenues.

#### Acquisition 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 phase and is concluded within twelve months of the acquisition. We account for business combinations under the purchase method, and accordingly, the assets and liabilities of the acquired businesses are recorded at their estimated fair value on the acquisition date with the excess of the purchase price over their estimated fair value recorded as goodwill. We determine acquisition related asset and liability fair values through established valuation techniques for industrial manufacturing companies and utilize third party valuation firms to assist in the valuation of certain tangible and intangible assets.

#### 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 Commitments" in Note 10 of the accompanying unaudited consolidated financial statements as well as "Legal Proceedings" in Part II, Item 1 hereof.

#### Impairment Analysis

As required by ASC Topic 350, "Intangibles - Goodwill and Other," 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. 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 the weighted average cost of capital.

If our estimates or related projections change in the future due to changes in industry and market conditions, we may be required to record additional impairment charges. The goodwill recorded on the consolidated balance sheet as of September 29, 2013 decreased \$1.4 million to \$76.1 million compared to \$77.4 million as of December 31, 2012 due to foreign currency fluctuations. There were no impairment triggering events as of September 29, 2013.

#### Income Taxes

See "Income Taxes" in Note 12 of the accompanying unaudited consolidated financial statements.

#### Pension Benefits

We maintain two pension benefit plans, a qualified noncontributory defined benefit plan 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 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 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.

During the three and nine months ended September 29, 2013, we made cash contributions of \$0.4 million and \$1.2 million, respectively to our qualified defined benefit pension plan. For the remainder of 2013, we expect to make a voluntary cash contribution of approximately \$0.4 million to our qualified defined benefit pension plan, although global capital market and interest rate fluctuations may impact future funding requirements.

## Results of Operations for the Three Months Ended September 29, 2013 Compared to the Three Months Ended September 30, 2012

The following table sets forth the results of operations, percentage of net revenues and the period-to-period percentage change in certain financial data for the three months ended September 29, 2013 and September 30, 2012:

	Three Months Ended September 29, 2013 (Dollars in thousands)		Three Months Ended September 30, 2012		% Change	
Net revenues	\$214,731	100.0	% \$209,804	100.0	% 2.3	%
Cost of revenues	144,593	67.3	% 151,109	72.0	% (4.3)	)%
Gross profit	70,138	32.7	% 58,695	28.0	% 19.5	%
Selling, general and administrative expenses	46,392	21.6	% 44,314	21.1	% 4.7	%
Impairment charges	—	—	% 10,348	4.9	% (100.0)	)%
Special charges / (recoveries)	(190)	(0.1)	)% 1,377	0.7	% (113.8)	)%
Operating income	23,936	11.1	% 2,656	1.3	% 801.2	%
Other expense:						
Interest expense, net	745	0.3	% 1,122	0.5	% (33.6)	)%
Other expense, net	568	0.3	% 564	0.3	% 0.7	%
Total other expense	1,313	0.6	% 1,686	0.8	% (22.1)	)%
Income before income taxes	22,623	10.5	% 970	0.5	% 2,232.3	%
Provision for income taxes	4,903	2.3	% (899)	(0.4)	)% (645.4)	)%
Net income	\$17,720	8.3	% \$1,869	0.9	% 848.1	%

## Net Revenues

Net revenues for the three months ended September 29, 2013 increased by \$4.9 million, or 2%, to \$214.7 million from \$209.8 million for the three months ended September 30, 2012. The change in net revenues for the three months ended September 29, 2013 was attributable to the following:

Segment	Three Months Ended September 29, 2013 (In thousands)		September 30, 2012	Total Change	Operations	Foreign Exchange
Energy	\$108,474	\$109,968		\$(1,494)	\$(3,567)	\$2,073
Aerospace	36,483	31,795		4,688	4,026	662
Flow Technologies	69,774	68,041		1,733	1,207	526
Total	\$214,731	\$209,804		\$4,927	\$1,666	\$3,261

The Energy segment accounted for approximately 51% of net revenues for the three months ended September 29, 2013 compared to 52% for the three months ended September 30, 2012. The Aerospace segment accounted for 17% of net revenues for the three months ended September 29, 2013 compared to 15% for the three months ended September 30, 2012. The Flow Technologies segment accounted for 32% of net revenues for the three months ended September 29, 2013 compared to 32% for the three months ended September 30, 2012.

Energy segment revenues decreased by \$1.5 million, or 1%, for the three months ended September 29, 2013 compared to the three months ended September 30, 2012. The decreased revenue was driven by \$3.6 million (3%) of organic declines primarily due to reductions in the short-cycle North American market as rig counts are down year over year partially offset by growth in large international projects. This net year over year organic decrease was offset by favorable foreign currency fluctuations of \$2.1 million. Energy segment orders decreased \$17.1 million to \$101.0

million for the three months ended September 29, 2013 compared to \$118.1 million for the same period in 2012 primarily due to lower large international projects. Backlog for our Energy segment has decreased \$1.9 million to \$208.5 million as of September 29, 2013 compared to \$210.4 million as of September 30, 2012 primarily due to our large international project business.



Aerospace segment revenues increased by \$4.7 million, or 15%, for the three months ended September 29, 2013 compared to the same period in 2012. The revenue increase was due to net organic increases of \$4.0 million (13%) with contributions from most of our markets as well as favorable foreign currency fluctuations of \$0.7 million. Orders for this segment increased \$0.9 million to \$43.8 million for the three months ended September 29, 2013 compared to \$42.9 million for the same period in 2012 primarily due to growth in most markets partially offset by a decline in landing gear. Order backlog decreased \$1.7 million to \$161.0 million as of September 29, 2013 compared to \$162.7 million as of September 30, 2012.

Flow Technologies segment revenues increased by \$1.7 million, or 3%, for the three months ended September 29, 2013 compared to the same period in 2012. The revenue increase was due to net organic increases of \$1.2 million (2%) primarily due to contributions from power and instrumentation, as well as favorable foreign currency fluctuations of \$0.5 million. This segment's customer orders increased \$14.0 million to \$78.5 million for the three months ended September 29, 2013 compared to \$64.5 million for the same period in 2012 with growth across the segment. Order backlog increased \$6.2 million to \$77.4 million as of September 29, 2013 compared to \$71.2 million as of September 30, 2012.

#### Special Charges / (Recoveries)

Special charges / (recoveries) of (\$0.2) million were recorded during the three months ended September 29, 2013; (\$3.1) million of recoveries in our Energy segment, partially offset by \$1.1 million of expenses in our Aerospace segment, \$1.1 million of expenses in our Flow Technologies segment, and \$0.6 million in Corporate.

Special charges of \$1.3 million were recorded during the three months ended September 30, 2012; \$1.1 million in our Energy segment, \$0.2 million in our Aerospace segment, and less than \$0.1 million in our Flow Technologies segment.

For additional information on the special charges / (recoveries), see Note 13 of the accompanying unaudited consolidated financial statements.

#### Operating Income (Loss)

The change in operating income for the three months ended September 29, 2013 compared to the three months ended September 30, 2012 was as follows:

Segment	Three Months Ended		Total Change	Operations	Foreign Exchange	Impairment, Special, and Restructuring (1)
	September 29, 2013	September 30, 2012				
	(In thousands)					
Energy	\$21,620	\$ 11,236	\$ 10,384	\$2,544	\$581	\$ 7,258
Aerospace	3,002	(10,284 )	13,286	2,793	20	10,473
Flow Technologies	8,334	8,873	(539 )	443	109	(1,091 )
Corporate	(9,020 )	(7,169 )	(1,851 )	(1,253 )	3	(600 )
Total	\$23,936	\$ 2,656	\$ 21,280	\$4,527	\$ 713	\$ 16,040

(1) Includes inventory restructuring, impairment and special charges - see tables below

Inventory restructuring, impairment, and special charges for the three months ended September 29, 2013 and September 30, 2012 were as follows:

Segment	Three Months			
	Ended September 30, 2012 (In thousands)	Inventory Restructuring	Impairment Charges	Special and Restructuring
Energy	\$4,196	\$947	\$2,156	\$1,093
Aerospace	11,609	3,177	8,193	239
Flow Technologies	45	—	—	45
Corporate	—	—	—	—
Total	\$15,850	\$4,124	\$10,349	\$1,377

  

Segment	Three Months			
	Ended September 29, 2013 (In thousands)	Inventory Restructuring	Impairment Charges	Special and Restructuring
Energy	\$(3,062 )	\$—	\$—	\$(3,062 )
Aerospace	1,136	—	—	1,136
Flow Technologies	1,136	—	—	1,136
Corporate	600	—	—	600
Total	\$(190 )	\$—	\$—	\$(190 )

Operating income increased 801%, or \$21.3 million, to \$23.9 million for the three months ended September 29, 2013 compared to \$2.7 million for the same period in 2012.

Operating income for our Energy segment increased \$10.4 million, or 92%, to \$21.6 million for the three months ended September 29, 2013, compared to the same period in 2012. The increase in operating income was primarily driven by net organic increases of \$2.5 million (23%), a \$7.3 million year over year reduction of special, impairment, and inventory restructuring related charges, and favorable foreign currency fluctuations \$0.6 million. Operating margins improved 970 basis points to 19.9% compared to the same period in 2012 primarily driven by a year over year reduction of inventory restructuring, impairment, and restructuring related charges, SF Settlement recovery of purchase price and by improved order mix and pricing within our large international project business as well as Brazil restructuring benefits.

Operating income for the Aerospace segment increased \$13.3 million, or 129%, to \$3.0 million for the three months ended September 29, 2013 compared to the same period in 2012. The increase in operating income was primarily driven by net organic increases of \$2.8 million (27%) and a \$10.5 million reduction in inventory restructuring, impairment, and restructuring related charges from the prior year. Operating margins improved 4,050 basis points to 8.2% compared to the same period in 2012 due primarily to reduced restructuring charges, increased volume and savings associated with the California restructuring.

Operating income for the Flow Technologies segment decreased \$0.5 million, or 6%, to \$8.3 million for the three months ended September 29, 2013 compared to the same period in 2012. The decrease in operating income was primarily driven by \$1.1 million in higher restructuring related charges partially offset by net organic increase of \$0.4 million (5%) and favorable foreign currency fluctuations of \$0.1 million. Operating margins declined by 110 basis points to 11.9% compared to the same period in 2012 primarily due to increased restructuring related special charges and sales and marketing investments for growth partially offset by improved sales volume, associated leverage and

improved pricing.

Corporate operating expenses increased \$1.9 million, or 26%, to \$9.0 million for the three months ended September 29, 2013 compared to the same period in 2012, primarily due to higher special charges and variable compensation.

**Interest Expense, Net**

Interest expense, net, decreased \$0.4 million to \$0.7 million for the three months ended September 29, 2013 compared to the three months ended September 30, 2012. This change in interest expense was primarily due to lower outstanding debt balances.

#### Other Expense, Net

Other expense, net, was \$0.6 million for the three months ended September 29, 2013 compared to \$0.6 million in the same period of 2012.

#### Provision for Taxes

The effective tax rate was 21.7% for the quarter ended September 29, 2013 compared to (92.8)% for the same period of 2012. The primary driver of the higher tax rate in the quarter ended September 29, 2013 was that pre-tax income exceeded \$22 million versus less than \$1 million in the quarter ended September 30, 2012.

For 2013, we expect an effective income tax rate of approximately 28.0%. The primary driver of this lower tax rate in the quarter was foreign rate differentials, the UK tax rate change and a non-taxable gain on a foreign price purchase settlement, offset by a change in the valuation allowance.

#### Net Income

Net income increased approximately \$15.9 million to \$17.7 million for the quarter ended September 29, 2013 compared to \$1.9 million for the same period in 2012.

#### Results of Operations for the Nine Months Ended September 29, 2013 Compared to the Nine Months Ended September 30, 2012

The following table sets forth the results of operations, percentage of net revenues and the period-to-period percentage change in certain financial data for the nine months ended September 29, 2013 and September 30, 2012:

	Nine Months Ended September 29, 2013 (Dollars in thousands)		Nine Months Ended September 30, 2012		% Change	
Net revenues	\$643,773	100.0	% \$643,946	100.0	% —	%
Cost of revenues	443,679	68.9	% 462,823	71.9	% (4.1)	)%
Gross profit	200,094	31.1	% 181,123	28.1	% 10.5	%
Selling, general and administrative expenses	139,561	21.7	% 134,562	20.9	% 3.7	%
Impairment charges	—	—	% 10,348	1.6	% (100.0)	)%
Special charges	3,441	0.5	% 1,377	0.2	% 149.9	%
Operating income	57,092	8.9	% 34,836	5.4	% 63.9	%
Other expense:						
Interest expense, net	2,370	0.4	% 3,220	0.5	% (26.4)	)%
Other expense, net	1,807	0.3	% 887	0.1	% 103.7	%
Total other expense	4,177	0.6	% 4,107	0.6	% 1.7	%
Income before income taxes	52,915	8.2	% 30,729	4.8	% 72.2	%
Provision for income taxes	14,619	2.3	% 9,138	1.4	% 60.0	%
Net income	\$38,296	5.9	% \$21,591	3.4	% 77.4	%

#### Net Revenues

Net revenues for the nine months ended September 29, 2013 decreased by \$0.2 million, or 0.0%, to \$643.8 million from \$643.9 million for the nine months ended September 30, 2012. The change in net revenues for the nine months ended September 29, 2013 was attributable to the following:

Segment	Nine Months Ended			Operations	Foreign Exchange
	September 29, 2013	September 30, 2012	Total Change		
	(In thousands)				
Energy	\$316,027	\$332,759	\$(16,732)	\$(18,150)	\$1,418
Aerospace	111,986	105,776	6,210	5,479	731
Flow Technologies	215,760	205,411	10,349	10,612	(263)
Total	\$643,773	\$643,946	\$(173)	\$(2,059)	\$1,886

The Energy segment accounted for 49% of net revenues for the nine months ended September 29, 2013 compared to 52% for the nine months ended September 30, 2012. The Aerospace segment accounted for 17% of net revenues for the nine months ended September 29, 2013 compared to 16% for the nine months ended September 30, 2012. The Flow Technologies segment accounted for 34% of net revenues for the nine months ended September 29, 2013 compared to 32% for the nine months ended September 30, 2012.

Energy segment revenues decreased by \$16.7 million, or 5%, for the nine months ended September 29, 2013 compared to the nine months ended September 30, 2012. The decrease was primarily driven by \$18.2 million (6%) of organic declines primarily due to reductions in the North America short-cycle markets as rig counts are down year over year, offset by favorable foreign currency fluctuations of \$1.4 million. Energy segment orders decreased \$63.6 million to \$318.4 million for the nine months ended September 29, 2013 compared to \$382.0 million for the same period in 2012, primarily due to lower North American short-cycle orders and large international projects.

Aerospace segment revenues increased by \$6.2 million, or 6%, for the nine months ended September 29, 2013 compared to the same period in 2012. The increase was due to organic growth of \$5.5 million (5%) across most areas with the exception of landing gear, and favorable foreign currency fluctuations of \$0.7 million. Orders for this segment increased \$1.3 million to \$112.9 million for the nine months ended September 29, 2013 compared to \$111.6 million for the same period in 2012.

Flow Technologies segment revenues increased by \$10.3 million, or 5%, for the nine months ended September 29, 2013 compared to the same period in 2012. The revenue increase was due to net organic growth of \$10.6 million (5%), offset by unfavorable foreign currency fluctuations of \$0.3 million. The organic revenue growth was primarily due to increased process, power, and oil & gas areas. This segment's customer orders increased \$11.1 million to \$218.9 million for the nine months ended September 29, 2013 compared to \$207.8 million for the same period in 2012 driven by increased process, power, and oil and gas orders.

#### Special Charges / (Recoveries)

Special charges / (recoveries) of \$3.4 million were recorded during the nine months ended September 29, 2013; \$(1.7) million of recoveries in our Energy segment, offset by \$3.3 million of expenses in our Aerospace segment, \$1.2 million of expenses in our Flow Technologies segment, and \$0.6 million of expenses in Corporate.

Special charges of \$1.3 million were recorded during the nine months ended September 30, 2012; \$1.1 million in our Energy segment, \$0.2 million in our Aerospace segment, and less than \$0.1 million in our Flow Technologies segment.

For additional information on the special charges / (recoveries), see Note 13 of the accompanying unaudited consolidated financial statements.

#### Operating Income (Loss)

The change in operating income for the nine months ended September 29, 2013 compared to the nine months ended September 30, 2012 was as follows:

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Segment	Nine Months Ended			Operations	Foreign Exchange	Impairment, Special and Restructuring (1)
	September 29, 2013	September 30, 2012	Total Change			
	(Dollars In thousands)					
Energy	\$46,234	\$ 32,744	\$13,490	\$6,781	\$859	\$5,850
Aerospace	5,469	(3,007 )	8,476	114	15	8,348
Flow Technologies	28,336	25,503	2,833	4,112	(84 )	(1,198 )
Corporate	(22,946 )	(20,404 )	(2,542 )	(1,933 )	(7 )	(600 )
Total	\$57,093	\$ 34,836	\$22,257	\$9,074	\$783	\$12,400

(1) Includes inventory restructuring, impairment and special charges - see tables below

Inventory restructuring, impairment, and special charges for the nine months ended September 29, 2013 and September 30, 2012 were as follows:

Segment	Nine Months Ended			
	September 30, 2012	Inventory Restructuring	Impairment Charges	Special and Restructuring
	(In thousands)			
Energy	\$4,196	\$ 947	\$ 2,156	\$ 1,093
Aerospace	11,609	3,177	8,193	239
Flow Technologies	45	—	—	45
Corporate	—	—	\$—	—
Total	\$15,850	\$4,124	\$10,349	\$1,377

Segment	Nine Months Ended			
	September 29, 2013	Inventory Restructuring	Impairment Charges	Special and Restructuring
	(In thousands)			
Energy	\$(1,654 )	\$ 296	\$ —	\$ (1,950)
Aerospace	3,259	(288 )	—	3,547
Flow Technologies	1,244	—	—	1,244
Corporate	600	—	—	600
Total	\$3,449	\$8	\$—	\$3,441

Operating income increased 64%, or \$22.3 million, to \$57.1 million for the nine months ended September 29, 2013 compared to \$34.8 million for the same period in 2012.

Operating income for our Energy segment increased \$13.5 million, or 41%, to \$46.2 million for the nine months ended September 29, 2013, compared to the same period in 2012. Operating margins improved 480 basis points to 14.6% on a revenue decrease of 5%, compared to the first nine months in 2012. The increase in operating income was primarily driven by favorable pricing within our large international project business, lower inventory restructuring charges and savings from the Brazil restructuring partially offset primarily by lower impairment charges, lower gross margin associated with lower shipment volume and higher operating expenses.

Operating income for the Aerospace segment increased \$8.5 million, or 282%, to \$5.5 million for the nine months ended September 29, 2013 compared to the same period in 2012. Operating income was higher primarily due to lower

impairment charges, lower inventory restructuring charges, savings from the California restructuring as well as higher gross margin associated with higher shipment volume partially offset by large new program expenses.

Operating income for the Flow Technologies segment increased \$2.8 million, or 11%, to \$28.3 million for the nine months ended September 29, 2013 compared to the same period in 2012. Operating income was higher primarily due to lower restructuring charges, improved gross margin associated with higher shipment volume and favorable pricing partially offset by sales and marketing investments for growth and special and restructuring charges.



Corporate operating expenses increased \$2.5 million, or 12%, to \$22.9 million for the nine months ended September 29, 2013 compared to the same period in 2012, primarily due to higher variable compensation.

#### Interest Expense, Net

Interest expense, net, decreased \$0.9 million to \$2.4 million for the nine months ended September 29, 2013 compared to the nine months ended September 30, 2012. This reduction in interest expense was primarily due to lower interest charges from lower borrowings associated with our revolving credit facility and other borrowings.

#### Other Expense, Net

Other expense, net, was \$1.8 million for the nine months ended September 29, 2013 compared to \$0.9 million in the same period of 2012. The difference of \$0.9 million was largely the result of the remeasurement of foreign currency balances.

#### Provision for Taxes

The effective tax rate was 27.6% for the nine months ended September 29, 2013 compared to 29.7% for the same period of 2012. The primary driver of the lower 2013 tax rate was a smaller loss for one of our international subsidiaries, which was not tax-benefited in either period, partially offset by discrete tax benefits recognized in the quarter ended September 30, 2012.

#### Net Income

Net income increased \$16.7 million to \$38.3 million for the nine months ended September 29, 2013 compared to \$21.6 million for the same period in 2012.

#### Liquidity and Capital Resources

Our liquidity needs arise primarily from capital investment in machinery, equipment and the improvement of facilities, funding working capital requirements to support business growth initiatives, acquisitions, dividend payments, pension funding obligations and debt service costs. We have historically generated cash from operations and remain in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing our capital structure on a short and long-term basis.

The following table summarizes our cash flow activities for the nine months ended September 29, 2013 (in thousands):

#### Cash flow provided by (used in):

Operating activities	\$53,761
Investing activities	(9,831 )
Financing activities	(19,357 )
Effect of exchange rates on cash and cash equivalents	(27 )
Decrease in cash and cash equivalents	\$24,546

During the nine months ended September 29, 2013, we generated \$53.8 million in operating activities compared to \$30.8 million generated during the same period in 2012. The higher amounts of cash provided by operating activities during the nine months ended September 29, 2013 was primarily due to higher net income and increases in accounts payable and accrued expense balances compared to the nine months ended September 30, 2012. The \$9.8 million used by investing activities primarily consists of net purchases of capital equipment partially offset by the \$3.4 million return of purchase price associated with a business we acquired in 2011. Financing activities used \$19.4 million, which included a \$19.7 million net reduction of borrowings. As of September 29, 2013, total debt was \$49.9 million compared to \$70.5 million at December 31, 2012. Total debt as a percentage of total shareholders' equity was 10.9% as

of September 29, 2013 compared to 16.9% as of December 31, 2012.

On May 2, 2011, we entered into a five year unsecured credit agreement (“2011 Credit Agreement”) that provides for a \$300.0 million revolving line of credit. The 2011 Credit Agreement includes a \$150.0 million accordion feature for a maximum facility size of \$450.0 million. The 2011 Credit Agreement also allows for additional indebtedness not to exceed \$80 million. We anticipate borrowing under the 2011 Credit Agreement to fund potential acquisitions, to support our organic growth initiatives and working capital needs, and for general corporate purposes. As of September 29, 2013, we had borrowings of \$42.4 million outstanding under our credit facility and \$52.6 million was allocated to support outstanding letters of credit.

Certain of our loan agreements contain covenants that require, among other items, maintenance of certain financial ratios and also limit our ability to: enter into secured and unsecured borrowing arrangements; issue dividends to shareholders; acquire and dispose of businesses; invest in capital equipment; transfer assets among domestic and international entities; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. The two primary financial covenants are leverage ratio and interest coverage ratio. We were in compliance with all financial covenants related to our existing debt obligations on September 29, 2013 and we believe it is reasonably likely that we will continue to meet such covenants in the near future.

The ratio of current assets to current liabilities was 2.65:1 as of September 29, 2013 compared to 2.43:1 at December 31, 2012. The increase in the current ratio was primarily due to the payment of short term borrowings, which reduced our current liabilities compared to December 31, 2012. As of September 29, 2013, cash and cash equivalents totaled \$86.3 million, of which approximately \$68.7 million was held in foreign bank accounts. This compares to \$61.7 million of cash and cash equivalents as of December 31, 2012 of which \$61.7 million was held in foreign bank accounts. The cash and cash equivalents located at our foreign subsidiaries may not be repatriated to the United States or other jurisdictions without significant tax implications. We believe that our U.S. based subsidiaries, in the aggregate, will generate positive operating cash flows and in addition we may utilize our 2011 Credit Facility for U.S. based subsidiary cash needs. As a result, we believe that we will not need to repatriate cash from our foreign subsidiaries with earnings that are indefinitely reinvested.

On November 4, 2010, we filed with the SEC a shelf registration statement on Form S-3 under which we may issue up to \$400 million of securities including debt securities, common stock, preferred stock, warrants to purchase any such securities and units comprised of any such securities (the "Securities"). The registration statement was declared effective by the SEC on December 17, 2010. We may offer these Securities from time to time in amounts, at prices and on terms to be determined at the time of sale. We believe that with this registration statement, we will have greater flexibility to take advantage of financing opportunities, acquisitions and other business opportunities when and if such opportunities arise. Depending on market conditions, we may issue securities under this or future registration statements or in private offerings exempt from registration requirements.

In 2013, we expect to generate positive cash flow from operating activities sufficient to support our capital expenditures and pay dividends of approximately \$2.7 million based on our current dividend practice of paying \$0.15 per share annually. Based on our expected cash flows from operations and contractually available borrowings under our credit facility, we expect to have sufficient liquidity to fund working capital needs and future growth. We continue to search for strategic acquisitions; a larger acquisition may require additional borrowings and/or the issuance of our common stock.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

#### Interest Rate Sensitivity Risk

As of September 29, 2013, our primary interest rate risk is related to borrowings under our revolving credit facility. The interest rate for our revolving credit facility fluctuates with changes in short-term interest rates. We had \$42.4 million borrowed under our revolving credit facility as of September 29, 2013. Based upon expected levels of borrowings under our credit facility in 2013, an increase in variable interest rates of 100 basis points would have an

effect on our annual results of operations and cash flows of approximately \$0.1 million.

### Foreign Currency Exchange Risk

The Company is exposed to certain risks relating to its ongoing business operations including foreign currency exchange rate risk and interest rate risk. The Company currently uses derivative instruments to manage foreign currency risk on certain business transactions denominated in foreign currencies. To the extent the underlying transactions hedged are completed, these forward contracts do not subject us to significant risk from exchange rate movements because they offset gains and losses on the related foreign currency denominated transactions. These forward contracts do not qualify as hedging instruments and, therefore, do not qualify for fair value or cash flow hedge treatment. Any unrealized gains and losses on our contracts are recognized as a component of other expense in our consolidated statements of income.

As of September 29, 2013, we had twenty-three forward contracts with total values as follows (in thousands):

Currency	Number	Contract Amount	Currency
Canadian Dollar/Euro	3	115	Canadian Dollars
U.S. Dollar/Euro	15	13,007	U.S. Dollars
Brazilian Real/Euro	5	0	Brazilian Reais

This compares to twelve forward contracts as of December 31, 2012. The fair value liability of the derivative forward contracts as of September 29, 2013 was approximately \$0.1 million and was included in accrued expenses and other current liabilities on our balance sheet. This compares to a fair value asset of approximately \$0.5 million that was included in prepaid expenses and other current assets on our balance sheet as of December 31, 2012. The unrealized foreign exchange gain (loss) for the nine month periods ended September 29, 2013 and September 30, 2012 was less than \$0.5 million and \$0.5 million, respectively. Unrealized foreign exchange gains (losses) are included in other (income) expense in our consolidated statements of income.

We have determined that the majority of the inputs used to value our foreign currency forward contracts fall within Level 2 of the fair value hierarchy, found under ASC 820. The credit valuation adjustments, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties are Level 3 inputs. However, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our foreign currency forward contracts and determined that the credit valuation adjustments are not significant to the overall valuation. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

## ITEM 4. CONTROLS AND PROCEDURES.

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were designed and were effective to give reasonable assurance that information we disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure and that such information is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

### Changes in Internal Controls Over Financial Reporting

We have made no changes in our internal controls over financial reporting during the quarter ended September 29, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION.

ITEM 1. LEGAL PROCEEDINGS.

Early in the third quarter of 2012 we commenced arbitration proceedings against the individuals from whom we purchased SF Valves in Brazil for breaches of certain representations and warranties made in the Stock Purchase Agreement dated February 4, 2011. On July 12, 2013 we reached a settlement on the SF Valves arbitration and have received a refund of a portion of the purchase price which resulted in a gain of approximately \$3.2 million during the third quarter of 2013.

Asbestos-related product liability claims continue to be filed against two of our subsidiaries—Spence Engineering Company, Inc. (“Spence”), the stock of which we acquired in 1984; and Circor Instrumentation Technologies, Inc. (f/k/a Hoke Incorporated) (“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 these asbestos-related claims will have a material adverse effect on the financial condition, results of operations or liquidity of Spence or Hoke, or our financial condition, consolidated results of operations or liquidity of the Company. During the third quarter of 2011, we commenced arbitration proceedings against T.M.W. Corporation (“TMW”), the seller from which we acquired the assets of Castle Precision Industries in August 2010, seeking to recover damages from TMW for breaches of certain representations and warranties made by TMW in the Asset Purchase Agreement dated August 3, 2010 relative to such acquisition. We currently are in the discovery phase of this arbitration and now expect the actual hearings to occur in the second quarter of 2014.

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.

#### ITEM 1A. RISK FACTORS.

We have not identified any material changes from the risk factors as previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the year ended December 31, 2012.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

##### Working Capital Restrictions and Limitations upon Payment of Dividends

Certain of our loan agreements contain covenants that require, among other items, maintenance of certain financial ratios and also limit our ability to: enter into secured and unsecured borrowing arrangements; issue dividends to shareholders; acquire and dispose of businesses; invest in capital equipment; transfer assets among domestic and international entities; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. The two primary financial covenants are leverage ratio and interest coverage ratio. We were in compliance with all covenants related to our existing debt obligations at September 29, 2013 and December 31, 2012. We believe it is reasonably likely that we will continue to meet such covenants in the near future.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

#### ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

On October 31, 2013, the Company announced certain leadership changes in connection with the simplification of its organizational structure. As a result, Wayne F. Robbins, currently Executive Vice President and Chief Operating Officer, will transition into the role of Executive Vice President and Group President--Circor Energy which will now consist of a combination of the Company's previously existing Energy group together with a majority of the businesses previously in the Flow Technologies group. At the same time, the Company announced that, in connection with this change in organizational structure, Mahesh Joshi, the current Group President -- Circor Energy, will be leaving the Company.

By resolution of the Board of Directors dated October 30, 2013, the Bylaws of the Company were amended in order to afford flexibility on the part of the Board of Directors to hold its regular Annual Meeting either immediately preceding or immediately following the Annual Meeting of Stockholders. Prior to such resolution, the Bylaws contemplated that the regular Annual Meeting of the Board of Directors would occur immediately after the Annual Meeting of Stockholders. The amendment took effect upon adoption by the Board of Directors on October 30, 2013. The preceding is qualified in its entirety by reference to the Company's Amended and Restated Bylaws, as amended, which are attached herewith Exhibit 3.1 and are incorporated herein by reference.



ITEM 6. EXHIBITS.

Exhibit No.	Description and Location
3.1*	Amended and Restated Bylaws, as amended, of Circor International, Inc as of October 30, 2013.
10.1§*	Agreement, dated as of July 31, 2013, between Circor International, Inc and Frederic M. Burditt
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements from CIRCOR International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 29, 2013, as filed with the Securities and Exchange Commission on October 24, 2013, formatted in XBRL (eXtensible Business Reporting Language), as follows:
	(i) Consolidated Balance Sheets as of September 29, 2013 (unaudited) and December 31, 2012
	(ii) Consolidated Statements of Income for the three and nine months ended September 29, 2013 and September 30, 2012 (unaudited)
	(iii) Statements of Consolidated Comprehensive Income (Loss) for the three and nine months ended September 29, 2013 and September 30, 2012 (unaudited)
	(iv) Consolidated Statements of Cash Flows for the nine months ended September 29, 2013 and September 30, 2012 (unaudited)
	(v) Notes to the Consolidated Financial Statements (unaudited)
*	Filed with this report.
**	Furnished with this report.
§	Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

CIRCOR INTERNATIONAL, INC.

October 31, 2013

/s/ Scott A. Buckhout  
Scott A. Buckhout  
President and Chief Executive Officer  
Principal Executive Officer

October 31, 2013

/s/ Frederic M. Burditt  
Frederic M. Burditt  
Vice President, Chief Financial Officer  
Principal Financial Officer

October 31, 2013

/s/ John F. Kober  
John F. Kober  
Vice President, Corporate Controller and Treasurer  
Principal Accounting Officer