

CIRCOR INTERNATIONAL INC
Form 10-K
February 27, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 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) c/o CIRCOR, Inc. 30 Corporate Drive, Suite 200, Burlington, MA (Address of principal executive offices)	04-3477276 (I.R.S. Employer Identification No.) 01803-4238 (Zip Code)
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(781) 270-1200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:
Common Stock, par value \$0.01 per share (registered on the New York Stock Exchange)
Securities registered pursuant to Section 12 (g) of the Act: None

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

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "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 Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2013 was \$882,656,431. The registrant does not have any non-voting common equity.

As of February 14, 2014, there were 17,611,451 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain portions of the information from the registrant's definitive Proxy Statement for the 2013 Annual Meeting of Stockholders to be held on April 30, 2014. The definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the close of the registrant's year ended December 31, 2013.

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Part I

Item 1. Business

This annual report on Form 10-K (hereinafter, the "Annual Report") contains certain statements that are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995 (the "Act") and releases issued by the Securities and Exchange Commission. The words "may," "hope," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," "continue," and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. We believe that it is important to communicate our future expectations to our stockholders, and we, therefore, make forward-looking statements in reliance upon the safe harbor provisions of the Act. However, there may be events in the future that we are not able to accurately predict or control and our actual results may differ materially from the expectations we describe in our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the cyclical nature and highly competitive nature of some of our end markets which can affect the overall demand for and pricing of our products, changes in the price of and demand for Oil & 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, divestiture, restructuring, or simplification strategies, 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 repositioning 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. For a discussion of these risks, uncertainties and other factors, see Item 1A "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.

Overview

CIRCOR International, Inc. was incorporated under the laws of Delaware on July 1, 1999 and is a spin-off of our former parent, Watts Water Technologies, Inc., formerly known as Watts Industries, Inc. ("Watts") as of October 18, 1999. As used in this report, the terms "we," "us," "our," the "Company" and "CIRCOR" mean CIRCOR International, Inc. and its subsidiaries (unless the context indicates another meaning). The term "common stock" means our common stock, par value \$0.01 per share.

We design, manufacture and market highly engineered products and sub-systems used in the Oil & Gas, power generation, aerospace, defense, and other industrial markets. Within our major product groups, we manage a portfolio of flow control and actuation products, sub-systems and technologies that enable us to fulfill our customers' unique application needs. We have a global presence and operate 20 major manufacturing facilities that are located in the United States, Western Europe, Morocco, India, Brazil and the People's Republic of China. We have two reporting segments: CIRCOR Energy ("Energy Segment" or "Energy") and CIRCOR Aerospace & Defense ("Aerospace & Defense Segment" or "Aerospace & Defense"). We sell our products through approximately 950 distributors or representatives and directly to end-use customers. As of December 31, 2013, we serviced more than 7,000 customers in over 100 countries around the world.

Strategies

Our objective is to enhance shareholder value by focusing on growth, margin expansion and strong free cash flow. We have a four-point strategy to achieve these objectives.

1) Grow Organically and Through Acquisitions. We leverage the power of our global design capabilities to develop innovative products that solve our customers' most challenging and critical problems. New products will be an increasingly important part of our growth strategy going forward. In addition, we are positioning ourselves to grow in parts of our end markets where our products are under-represented. This could include establishing a presence in high-growth geographies where we have a limited presence today. It also could include taking products established in one end-market (e.g., power generation) and selling those solutions into other relevant end markets (e.g., Oil & Gas).

In addition to organic growth, we expect to acquire businesses over time. We are primarily focused on companies with differentiated technologies in complementary markets that we already understand; and where we expect substantial growth. In

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addition to strategic fit, the main criterion for an acquisition is return on invested capital.

2) Simplify CIRCOR. In 2013 we embarked on a long-term journey to simplify CIRCOR. While we made progress in 2013, CIRCOR continues to operate with significant complexity. We have a large number of properties and believe that simplifying this structure will not only expand our margins by reducing cost, but will help us improve our operations and controls.

3) Achieve World Class Operational Excellence. Our Global Operations and Sourcing organizations are focused on improving our quality, delivery, cost, safety and inventory performance. The primary tool for expanding performance at CIRCOR is 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 design, manufacturing, sales, procurement and office-related processes (“Lean”). We are focused on expanding our CIRCOR Business System that reaches well beyond the four walls of our existing manufacturing facilities. This program will include strong leadership at the top of CIRCOR, more effective training and standardization across the organization, robust processes and metrics, and clear lines of accountability. The CIRCOR Business System will be the foundation of our operational improvements in the future. Achieving operational and business process excellence will be one of the critical elements to our growth, margin expansion and improved working capital objectives.

4) Build the Best Team. Finally, we have a fundamental belief at CIRCOR that the best team wins. We are committed to attracting the most talented people in our industry and we are committed to investing, engaging, challenging and developing our employees. We believe the best people combined with robust process, appropriate metrics, and individual accountability will deliver extraordinary results.

Business Segments

During the fourth quarter of 2013, we consolidated our group structure from three segments to two. This change is in line with our focus on simplifying the way we manage CIRCOR and better aligns our businesses with the customers and end markets we serve. We now operate two business segments, Energy and Aerospace & Defense.

Energy

Energy is a global provider of highly engineered integrated flow control solutions and services in the expanding and evolving Oil & Gas and power generation industries. We specialize in valves and pipeline products and services.

We are focused on satisfying our customers’ mission-critical application needs by utilizing advanced technologies. Our flow control solutions can withstand extreme temperatures and pressures, including land-based and sub-sea applications. Energy is growing its product offering in the severe service sector, which includes applications such as process control, oil sands, pressure control, cryogenic, power steam generation systems and process systems.

We plan to grow Energy by expanding our capabilities in Oil & Gas - upstream, mid-stream and downstream, as well as focusing on the global power generation infrastructure build-out in emerging markets. We expect to grow organically and through acquisitions.

Energy is headquartered in Houston, Texas and has facilities in Oklahoma, Florida, South Carolina, California, New York, China, Canada, United Kingdom, Italy, India, Brazil, Germany and the Netherlands.

Markets and Applications

Energy serves an increasing range of energy-focused global markets. Key to our business strategy is targeting additional markets that can benefit from our innovative products and system solutions. Markets served today include Oil & Gas: upstream (on-shore and off-shore), mid-stream and downstream applications as well as power generation including steam/process applications in both commercial and industrial markets. The upstream and mid-stream markets are primarily served by our large international project, North American short cycle and pipeline businesses and downstream markets served primarily by our instrumentation and sampling businesses.

Upstream Oil & Gas markets commonly include all the equipment between the oil/gas reservoir and the outlet on the wellhead. It also incorporates all the activities associated with the installation of this equipment.

Mid-stream Oil & Gas: This market begins at the outlet of the wellhead and extends to the fence around the refinery or petrochemical plant. It includes all the ancillary equipment - such as oil field heaters that warm crude oil and are required to move the product through the gathering and pipeline systems to the processing plants - as well as the gas

processing plants that prepare and purify the raw natural gas for entry into the major pipeline systems and Liquid Natural Gas (LNG) processes.

Downstream Oil & Gas: The downstream market includes the refining, distillation, stripping, degassing, dehydrating, desulpherizing, and purifying of the crude oil to its constituent components or the natural gas to methane.

Power Generation: The power generation market is comprised of electric utilities and industrial power producers. Utilities generate, transmit, and distribute electricity for sale in a local market, while industrial power plants generate electrical power for use within the industrial facility, such as a power plant within a steel mill or within a desalination plant. Utilities and industrial power plants can be categorized by fuel or by design such as Cogeneration, Combined Cycle, Coal Gasification, Super-Critical, Ultra-Critical, Nuclear, and Hydro-electric.

Brands

Energy provides its flow control solutions and services through the following significant brands:

KF Valves, Pibiviesse, Circle Seal Controls, Contromatics, CPC Cryolab, Dopak Sampling, GO Regulators, Hoke, Gyrolok, Hydroseal, Laurence, Leslie Controls, Mallard Control, Nicholson Steam Trap, Pipeline Engineering, Rockwood Swendeman, RTK, Sagebrush, SF Valvulas, Spence Engineering and Texas Sampling.

Products

Energy offers a range of flow control solutions (distributed and highly engineered) and services, including:

Valves (from 1/8 inch to 64 inches)

Severe Service and General Service Control Valves

Engineered Trunion and Floating Ball Valves

Gate, Globe and Check Valves

Instrumentation Fittings and Sampling Systems, including Sight Glasses & Gauge Valves

Pipeline systems including Pigging tools, flow control skids and pressure control skids

Liquid Level Controllers, Liquid Level Switches, Needle Valves, Pilot Operated Relief Valves, Plugs & Probes

Pressure Controllers, Pressure Regulators, Safety Relief Valves.

For our manufactured valve products, we ensure compliance with federal, state and local regulations, as well as industrial standards including those issued by the American Petroleum Institute, International Organization for Standardization, Underwriters' Laboratory, American National Standards Institute, American Society of Mechanical Engineers, European Pressure Equipment Directive, and the American National Standards Institute. In addition, we need to meet standards that qualify us to be on authorized supplier lists with the various global end users.

Customers

Energy's products and services are sold to end-user customers, such as major oil companies, power generation, process industries and Engineering, Procurement and Construction companies, through sales channels that include direct sales, sales representatives, distributors, and agents.

Revenue and Backlog

Energy accounted for \$661.0 million, \$659.4 million and \$620.7 million, or 77%, 78% and 75%, of our net revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Energy's backlog as of January 26, 2014 was

\$295.0 million compared with \$271.9 million as of January 27, 2013. We expect to ship all but \$33.1 million of the January 26, 2014 backlog by December 31, 2014.

Aerospace & Defense

Aerospace & Defense is a growing industry leader with primary focus areas of actuation systems, control systems (fluid, electromechanical, pneumatic) and landing gear systems.

Aerospace & Defense sub-systems, components and products are flying on many commercial and military aircraft, including

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single and twin-aisle air transport, business and regional jets, military transports and fighters, and commercial and military rotorcraft. Other markets include unmanned aircraft, shipboard applications, military ground vehicles and space.

We have significant Aerospace & Defense facilities in California, New York, United Kingdom, France and Morocco. Our Aerospace & Defense headquarters is in Corona, California.

Markets and Applications

Commercial Aerospace: The commercial aerospace market we serve includes systems and components to support the aviation industry, such as hydraulic, pneumatic, fuel and ground support equipment including maintenance, repair and overhaul (MRO).

Defense: The defense market we serve includes military and naval applications where controls or motion switches are needed. We support fixed wing aircraft, rotorcraft, missile systems, ground vehicles, weapon systems and weapon launch systems, ordinance, fire control, fuel systems, pneumatic controls, and hydraulic and dockside support equipment including maintenance, repair and overhaul (MRO).

Brands

Aerospace & Defense provides control solutions and services for critical aerospace and defense applications through the following brands: CIRCOR Aerospace, Circle Seal Controls, Aerodyne Controls, Cambridge Fluid Systems, CIRCOR Bodet, CIRCOR Industria, and Hale Hamilton.

Products

Aerospace & Defense primarily manufactures controls (fluid, electromechanical, pneumatic), landing gear, and actuation components and sub-systems. In the manufacture of our products, we must comply with certain certification standards, such as AS9100C, ISO 9001:2008, National Aerospace & Defense Contractors Accreditation Program, Federal Aviation Administration Certification and European Aviation Safety Agency.

Customers

Aerospace & Defense products and services are used by a range of customers, including those in the military and defense, commercial aerospace, and business and general aviation markets.

Revenue and Backlog

CIRCOR Aerospace and Defense accounted for \$196.8 million, \$186.2 million and \$201.7 million, or 23%, 22% and 25%, of our net revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Aerospace & Defense backlog as of January 26, 2014 was \$171.9 million compared with \$179.9 million as of January 27, 2013. We expect to ship all but \$44.7 million of the January 26, 2014 backlog by December 31, 2014.

CIRCOR Consolidated

Competition

The domestic and international markets for our products are highly competitive. Some of our competitors have substantially greater financial, marketing, personnel and other resources than us. We consider product quality, performance, on-time delivery, customer service, price, distribution capabilities and breadth of product offerings to be the primary competitive factors in these markets. We believe that new product development and product engineering

also are important to our success and that our position in the industry is attributable, in significant part, to our ability to develop innovative products and to adapt existing products to specific customer applications.

The primary competitors of our Energy segment include: Balon Corporation, Cameron International Corp., Curtiss-Wright Corporation, Flowserve Corporation, IMI plc, Pentair Ltd, PetrolValves, SPX Corporation, Swagelok Company, and Valvitalia S.p.A.

The primary competitors of our Aerospace & Defense segment include: Crane Co., Cobham PLC, Eaton Corporation, GE Aviation, Heroux Devtek Inc, Lee, Magnaghi, Marotta, Maxon, Meggitt PLC, Triumph.

New Product Development

Our engineering differentiation comes from our ability to offer products, solutions and services that address high pressure, high temperature, and caustic flow. Our solutions offer the highest standards of reliability, safety and durability in applications requiring precision movement and zero leakage.

We continue to develop new and innovative products to enhance our market positions. Our product development capabilities include designing and manufacturing custom applications to meet high tolerance or close precision requirements. For example, our Energy segment operation can meet the tolerance requirements of sub-sea, cryogenic environments as well as critical service steam applications. Our Aerospace & Defense segment continues to expand its integrated systems design and testing capability to support bundled systems for aeronautics applications. These testing and manufacturing capabilities enable us to develop customer-specified applications. In many cases, the unique characteristics of our customer-specified technologies have been subsequently used in broader product offerings.

We have expanded our engineering capability and capacity for new designs by using our India organization as a global engineering and technology center. Our research and development expenditures for the years ended December 31, 2013, 2012 and 2011, were \$6.5 million, \$8.4 million and \$6.1 million, respectively.

Customers

For the years ended December 31, 2013, 2012 and 2011, we did not have any customers with revenues that exceeded 5% of our consolidated revenues. Our businesses sell into both long term capital projects as well as short cycle rapid turn operators. As a result, we tend to experience fluctuations in revenues and operating results at various points across economic and business cycles. Our businesses, particularly those in the Energy segment, are cyclical in nature due to the fluctuation of the worldwide demand for oil and gas. When the worldwide demand for oil and gas is depressed, the demand for our products used in those markets decreases. These declines could have a material adverse effect on our business, financial condition and operations. Similarly, although not to the same extent as the Oil & Gas markets, the aerospace, military and maritime markets have historically experienced cyclical fluctuations in demand that also could have a material adverse effect on our business, financial condition and operations.

Selling and Distribution

Across our businesses we utilize a variety of channels to market our products and solutions. Those channels include direct sales, distributors and commissioned representatives. Our distribution and representative networks typically offer technically trained sales forces with strong relationships in key markets.

We believe that our well-established sales and distribution channels constitute a competitive strength. We believe that we have good relationships with our representatives and distributors. We continue to implement marketing programs to enhance these relationships. Our ongoing distribution-enhancement programs include reducing lead times, introducing new products, and offering competitive pricing, application design, technical training, and literature.

Intellectual Property

We own patents that are scheduled to expire between 2016 and 2030 and trademarks that can be renewed as long as we continue to use them. We do not believe the vitality and competitiveness of any of our business segments as a whole depends on any one or more patents or trademarks. We own certain licenses such as software licenses, but we do not believe that our business as a whole depends on any one or more licenses.

Raw Materials

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

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Employees and Labor Relations

As of January 27, 2014, our worldwide operations directly employed approximately 2,800 people. We have 45 employees in the United States who are covered by a single collective bargaining agreement. We also have approximately 241 employees in France, 211 in Italy, 115 in Brazil, 68 in the United Kingdom, 40 in the Netherlands and 34 in Morocco covered by governmental regulations or workers' councils. We believe that our employee relations are good at this time.

Environmental Regulations and Proceedings

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

We currently do not anticipate any materially adverse effect on our business, financial condition or results of operations as a result of our compliance with federal, state, local and foreign environmental laws. However, risk of environmental liability and charges associated with maintaining compliance with environmental laws is inherent in the nature of our manufacturing operations and there is no assurance that material liabilities or charges could not arise. During the year ended December 31, 2013, we capitalized approximately \$0.6 million and expensed \$1.6 million related to environmental and safety control facilities. For the year ending December 31, 2014, we expect to capitalize \$0.5 million and expense \$1.5 million related to environmental and safety control facilities.

Available Information

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

Item 1A. Risk Factors.

Certain Risk Factors That May Affect Future Results

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

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

We have experienced, and expect to continue to experience, fluctuations in revenues and operating results due to economic and business cycles. We sell our products principally to aerospace, military, commercial aircraft, pharmaceutical, medical, analytical equipment, Oil & Gas exploration, transmission and refining, power generation, chemical processing and maritime markets. Although we serve a variety of markets to avoid a dependency on any one, a significant downturn in any one of these markets could cause a material reduction in our revenues that could be difficult to offset. In addition, decreased market demand typically results in excess manufacturing capacity among our competitors which, in turn, results in pricing pressure. As a consequence, a significant downturn in our markets can result in lower profit margins.

In particular, our energy businesses are cyclical in nature as the worldwide demand for oil and gas fluctuates. When worldwide demand for oil and gas is depressed, the demand for our products used in maintenance and repair of existing oil and gas applications, as well as exploration or new oil and gas project applications, is reduced. As a result, we historically have generated lower revenues and profits in periods of declining demand for petrochemical products. Therefore, results of operations for any particular period are not necessarily indicative of the results of operations for any future period. Future downturns or anticipated downturns in demand for oil and gas products could have a material adverse effect on our business,

financial condition or results of operations. Similarly, although not to the same extent as the Oil & Gas markets, the aerospace, military, and maritime markets have historically experienced cyclical fluctuations in demand that also could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

We operate a number of manufacturing facilities for the production of our products. The equipment and management systems necessary for such operations may break down, perform poorly or fail, resulting in fluctuations in manufacturing efficiencies. Such fluctuations may affect our ability to deliver products to our customers on a timely basis, which could have a material adverse effect on our business, financial condition or results of operations. We have continuously enhanced and improved Lean manufacturing techniques as part of the CIRCOR Business System. We believe that this process produces meaningful reductions in manufacturing costs. However, continuous improvement of these techniques may cause short-term inefficiencies in production. If we ultimately are unable to continuously improve our processes, our results of operations may suffer.

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

One of our continued strategies is to increase our revenues and expand our markets through acquisitions that will provide us with complementary Energy and Aerospace & Defense products and access to additional geographic markets. We expect to spend significant time and effort expanding our existing businesses and identifying, completing and integrating acquisitions. We expect to face competition for acquisition candidates that may limit the number of acquisition opportunities available to us and may result in higher acquisition prices. We cannot be certain that we will be able to identify, acquire or profitably manage additional companies or successfully integrate such additional companies without substantial costs, delays or other problems. Also, there can be no assurance that companies we acquire ultimately will achieve the revenues, profitability or cash flows, or generate the synergies upon which we justify our investment in them; as a result, any such under-performing acquisitions could result in impairment charges which would adversely affect our results of operations. In addition, acquisitions may involve a number of special risks, including: adverse effects on our reported operating results; use of cash; diversion of management's attention; loss of key personnel at acquired companies; or unanticipated management or operational problems or legal liabilities.

We also continually review our current business and products to attempt to maximize our performance. We may in the future deem it appropriate to pursue the divestiture of product lines or businesses as conditions dictate. Any divestiture

may result in a dilutive impact to our future earnings if we are unable to offset the dilutive impacts from the loss of revenue associated with the divested assets or businesses, as well as significant write-offs, including those related to goodwill and other intangible assets, which could have a material adverse effect on our results of operations and financial condition. A successful divestiture depends on various factors, including our ability to effectively transfer liabilities, contracts, facilities and employees to any purchaser, identify and separate the intellectual property to be divested from the intellectual property that we wish to retain, reduce fixed costs previously associated with the divested assets or business, and collect the proceeds from any divestitures. In addition, if customers of the divested business do not receive the same level of service from the new owners, this may adversely affect our other businesses to the extent that these customers also purchase other products offered by us. All of these efforts require varying levels of management resources, which may divert our attention from other business operations.

A recent focus of our Company is to simplify the way we are organized and the number of facilities we manage. We believe that such focus will reduce overhead structure, enhance operational synergies, and result in improved operating margins. Nevertheless,

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we may not achieve expected cost savings from restructuring and simplification activities and actual charges, costs and adjustments due to such activities may vary materially from our estimates. Our ability to realize anticipated cost savings, synergies, margin improvement, and revenue enhancements may be affected by a number of factors, including the following: our ability to effectively eliminate duplicative overhead, rationalize manufacturing capacity, synchronize information technology systems, consolidate warehousing and distribution facilities and shift production to more economical facilities; significant cash and non-cash integration and implementation costs or charges in order to achieve those cost savings, which could offset any such savings; and our ability to avoid labor disruption in connection with integration efforts or divestitures.

If we do not realize the expected benefits or synergies of any acquisition, divestiture, restructuring, or simplification activities, our business, financial condition, results of operations and cash flow could be negatively impacted.

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

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

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

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

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

Some of our customer contracts require us to compensate those customers if we do not meet specified delivery obligations. We rely on numerous suppliers to provide us with our required materials and in many instances these materials must meet certain specifications. In addition, we continue to increase our dependence on lower cost foreign sources of raw materials, components, and, in some cases, completed products. Managing a geographically diverse supply base inherently poses significant logistical challenges. While we believe that we also have improved our ability to effectively manage a global supply base, a risk nevertheless exists that we could experience diminished supplier performance resulting in longer than expected lead times and/or product quality issues. The occurrence of such factors could have a negative impact on our ability to deliver products to customers within our committed time frames and could result in reductions of our operating and net income in future periods.

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

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

We may use forward