

CIRCOR INTERNATIONAL INC  
Form 10-Q  
November 03, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended October 2, 2011.

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)

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<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>04-3477276</b> (I.R.S. Employer Identification No.)
<b>c/o Circor, Inc.</b>  <b>25 Corporate Drive, Suite 130, Burlington, MA</b> (Address of principal executive offices)	<b>01803-4238</b> (Zip Code)
<b>(781) 270-1200</b>  (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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 20, 2011, there were 17,264,712 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

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**CIRCOR INTERNATIONAL, INC.**

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**Table of Contents****PART I FINANCIAL INFORMATION.****ITEM 1. FINANCIAL STATEMENTS.****CIRCOR INTERNATIONAL, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

	October 2, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 39,254	\$ 45,752
Short-term investments	98	101
Trade accounts receivable, less allowance for doubtful accounts of \$898 and \$822, respectively	142,369	138,860
Inventories	213,824	167,797
Income taxes refundable	113	1,625
Prepaid expenses and other current assets	14,137	5,749
Deferred income tax asset	17,146	20,111
Insurance receivables	0	38
Assets held for sale	542	542
<b>Total Current Assets</b>	<b>427,483</b>	<b>380,575</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>103,252</b>	<b>95,768</b>
<b>OTHER ASSETS:</b>		
Goodwill	77,152	63,175
Intangibles, net	59,997	62,322
Deferred income tax asset	13,035	11,829
Other assets	4,540	2,526
<b>TOTAL ASSETS</b>	<b>\$ 685,459</b>	<b>\$ 616,195</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 83,439	\$ 80,577
Accrued expenses and other current liabilities	65,284	51,248
Accrued compensation and benefits	24,581	22,305
Leslie asbestos and bankruptcy related liabilities	1,200	79,831
Income taxes payable	0	38
Notes payable and current portion of long-term debt	16,679	851
<b>Total Current Liabilities</b>	<b>191,183</b>	<b>234,850</b>
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<b>86,818</b>	<b>684</b>
<b>DEFERRED INCOME TAXES</b>	<b>2,292</b>	<b>0</b>
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>20,870</b>	<b>23,841</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	0	0

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Common stock, \$0.01 par value; 29,000,000 shares authorized; 17,252,650 and 17,112,688 shares issued and outstanding at October 2, 2011 and December 31, 2010, respectively	173	171
Additional paid-in capital	257,309	254,154
Retained earnings	120,773	96,389
Accumulated other comprehensive income	6,041	6,106
<b>Total Shareholders' Equity</b>	<b>384,296</b>	<b>356,820</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 685,459</b>	<b>\$ 616,195</b>

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

**Table of Contents****CIRCOR INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

**(Unaudited)**

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Net revenues	\$ 209,961	\$ 177,577	\$ 605,239	\$ 491,851
Cost of revenues	154,774	126,096	439,218	348,109
<b>GROSS PROFIT</b>	<b>55,187</b>	<b>51,481</b>	<b>166,021</b>	<b>143,742</b>
Selling, general and administrative expenses	39,448	35,648	124,083	109,024
Leslie asbestos and bankruptcy (recoveries) charges	(201)	2,343	676	30,603
<b>OPERATING INCOME</b>	<b>15,940</b>	<b>13,490</b>	<b>41,262</b>	<b>4,115</b>
<b>Other expense (income):</b>				
Interest income	(69)	(69)	(166)	(162)
Interest expense	956	803	3,058	2,036
Other expense (income), net	354	(853)	1,830	(646)
<b>TOTAL OTHER EXPENSE (INCOME)</b>	<b>1,241</b>	<b>(119)</b>	<b>4,722</b>	<b>1,228</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>14,699</b>	<b>13,609</b>	<b>36,540</b>	<b>2,887</b>
Provision (benefit) for income taxes	3,752	3,210	10,191	(2,005)
<b>NET INCOME</b>	<b>\$ 10,947</b>	<b>\$ 10,399</b>	<b>\$ 26,349</b>	<b>\$ 4,892</b>
<b>Earnings per common share:</b>				
Basic	\$ 0.63	\$ 0.61	\$ 1.53	\$ 0.29
Diluted	\$ 0.63	\$ 0.60	\$ 1.51	\$ 0.28
<b>Weighted average number of common shares outstanding:</b>				
Basic	17,266	17,123	17,226	17,095
Diluted	17,423	17,258	17,412	17,238
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.

**Table of Contents****CIRCOR INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

**(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>October 2, 2011</b>	<b>October 3, 2010</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 26,349	\$ 4,892
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	11,265	9,509
Amortization	3,293	3,065
(Payment) Provision for Leslie bankruptcy settlement	(76,625)	24,974
Compensation expense of share-based plans	3,007	2,445
Tax effect of share-based compensation	(649)	(114)
(Gain) loss on sale/disposal of property, plant and equipment	(68)	248
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Trade accounts receivable	(1,249)	(20,256)
Inventories	(43,901)	(26,090)
Prepaid expenses and other assets	(9,453)	5,031
Accounts payable, accrued expenses and other liabilities	17,353	13,406
Net cash (used in) provided by operating activities	(70,678)	17,110
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(11,254)	(11,400)
Proceeds from the disposal of property, plant and equipment	84	75
Business acquisitions, net of cash acquired	(20,221)	(34,401)
Proceeds from the sale of investments	0	21,427
Net cash used in investing activities	(31,391)	(24,299)
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowings	224,455	91,750
Payments of borrowings	(126,269)	(60,202)
Debt issuance costs	(2,001)	0
Dividends paid	(1,987)	(1,982)
Proceeds from the exercise of stock options	496	329
Tax effect of share-based compensation	649	114
Net cash provided by financing activities	95,343	30,009
Effect of exchange rate changes on cash and cash equivalents	228	(644)
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,498)</b>	<b>22,176</b>
Cash and cash equivalents at beginning of period	45,752	46,350

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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 39,254	\$ 68,526
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Supplemental Cash Flow Information:

Cash paid during the nine months for:

Income taxes	\$ 6,476	\$ 4,713
Interest	\$ 3,576	\$ 1,947

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



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**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 operations 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, 2010 is as reported in our audited financial statements as of that date. Our accounting policies are described in the notes to our December 31, 2010 financial statements, which were included in our Annual Report filed on Form 10-K. We recommend that the financial statements included in this 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, 2010.

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 October 2, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

*Reclassifications*

Certain items in the prior period financial statements have been reclassified to conform to currently reported presentations.

**(2) Summary of Significant Accounting Policies**

*New Accounting Standards*

The FASB issued ASU 2011-04 in May 2011 to amend fair value measurements and related disclosures; the guidance becomes effective on a prospective basis at the beginning of the 2012 fiscal year. This new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between International Financial Reporting Standards ( IFRS ) and U.S. GAAP. The new guidance also changes some fair value measurement principles and enhances disclosure requirements related to activities in Level 3 of the fair value hierarchy. The adoption of this updated authoritative guidance is not expected to have any impact on our consolidated financial statements.

In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-05 to amend the presentation of comprehensive income in financial statements. This guidance allows companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. Under both alternatives, companies will be required to present each component of net income and comprehensive income. The adoption of this updated authoritative guidance will impact the presentation of our consolidated financial statements, but it will not change the items that must be reported in other comprehensive income. The guidance must be applied retrospectively and is effective for the first quarter of 2012. We are in the process of evaluating the presentation options required by this ASU.

In the third quarter of 2011, the FASB issued an ASU aimed at simplifying entities' annual goodwill impairment test. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, early adoption is allowed. We have elected to adopt this standard early and will apply the provisions of this ASU to our 2011 analysis of goodwill. The adoption of this updated authoritative guidance is not expected to have a significant impact on our consolidated financial statements.

**(3) Share-Based Compensation**

As of October 2, 2011, 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

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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 to six years and expire ten years after the grant date. Restricted stock units granted generally vest from three to six years. Vested restricted stock units will be settled in shares of our common stock. As of October 2, 2011, there were 156,014 stock options and 395,794 restricted stock units outstanding. In addition, there were 528,816 shares available for grant under the 1999 Stock Plan as of October 2, 2011. As of October 2, 2011, there were 13,566 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 of our stock option grants, 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. During the first nine months of 2011, we granted 64,755 stock options.

The fair value of stock options granted during the nine months ended October 2, 2011 of \$16.96 was estimated using the following weighted-average assumptions:

Risk-free interest rate	1.2%
Expected life (years)	5.8
Expected stock volatility	46.4%
Expected dividend yield	0.4%

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 ranging from three to six years. During the nine months ended October 2, 2011 and October 3, 2010, we granted 66,027 and 130,226 RSU Awards with approximate fair values of \$38.68 and \$30.91 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 43,734 and 13,505 RSUs with per unit discount amounts representing fair values of \$12.87 and \$10.20 were granted under the CIRCOR Management Stock Purchase Plan during the nine months ended October 2, 2011 and October 3, 2010, respectively.

Compensation expense related to our share-based plans for the nine month periods ended October 2, 2011, and October 3, 2010 was \$3.0 million and \$2.6 million, respectively, and was recorded as selling, general and administrative expense. As of October 2, 2011, there was \$5.5 million of total unrecognized compensation costs related to our outstanding share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of approximately 3.0 years.

A summary of the status of all stock options granted to employees and non-employee directors as of October 2, 2011 and changes during the nine month period then ended is presented in the table below (Options in thousands):

	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	135	\$ 23.29
Granted	65	\$ 38.27
Exercised	(27)	\$ 18.68
Forfeited	(17)	\$ 36.07
Options outstanding at end of period	156	\$ 28.89

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Options exercisable at end of period

74 \$ 21.44

The weighted average contractual term for stock options outstanding and options exercisable as of October 2, 2011 was 6.0 years and 2.5 years, respectively. The aggregate intrinsic value of stock options exercised during the nine months ended October 2, 2011 was \$0.6 million and the aggregate intrinsic value of stock options outstanding and options exercisable as of October 2, 2011 was \$0.6 million and \$0.6 million, respectively.

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A summary of the status of all RSU Awards granted to employees and non-employee directors as of October 2, 2011 and changes during the nine month period then ended is presented in the table below (RSUs in thousands):

	RSUs	Weighted Average Grant Date Fair Value
RSU Awards outstanding at beginning of period	340	\$ 30.79
Granted	66	\$ 38.68
Settled	(130)	\$ 29.81
Cancelled	(34)	\$ 30.93
 RSU Awards outstanding at end of period	 242	 \$ 33.46

RSU Awards vested and deferred at end of period	12	\$ 34.55
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The aggregate intrinsic value of RSU Awards settled during the nine months ended October 2, 2011 was \$5.5 million and the aggregate intrinsic value of RSU Awards outstanding and RSU Awards vested and deferred as of October 2, 2011 was \$7.1 million and \$0.4 million, respectively.

A summary of the status of all RSU MSPs granted to employees and non-employee directors as of October 2, 2011 and changes during the nine month period then ended is presented in the table below (RSUs in thousands):

	RSUs	Weighted Average Exercise Price
RSU MSPs outstanding at beginning of period	173	\$ 18.63
Granted	44	\$ 26.13
Settled	(45)	\$ 27.76
Cancelled	(18)	\$ 17.22
 RSU MSPs outstanding at end of period	 154	 \$ 18.26

RSU MSPs vested and deferred at end of period	1	\$ 32.60
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The aggregate intrinsic value of RSU MSPs settled during the nine months ended October 2, 2011 was \$0.5 million and the aggregate intrinsic value of RSU MSPs outstanding and RSU MSPs vested and deferred as of October 2, 2011 was \$1.7 million and less than \$0.1 million, respectively.

**(4) Inventories**

Inventories consist of the following (In thousands):

	October 2, 2011	December 31, 2010
Raw materials	\$ 70,418	\$ 49,451
Work in process	98,276	80,402
Finished goods	45,130	37,944
	\$ 213,824	\$ 167,797

**(5) Goodwill and Intangible Assets**

The following table presents goodwill, by segment, as of October 2, 2011 (In thousands):

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	<b>Energy</b>	<b>Aerospace</b>	<b>Flow Technologies</b>	<b>Consolidated Total</b>
Goodwill as of December 31, 2010	\$ 39,423	\$ 19,430	\$ 4,322	\$ 63,175
Acquisitions	12,568	0	0	12,568
Adjustments to preliminary purchase price allocation	(126)	2,713	(19)	2,568
Currency translation adjustments	(966)	22	(215)	(1,159)
Goodwill as of October 2, 2011	\$ 50,899	\$ 22,165	\$ 4,088	\$ 77,152

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The table below presents the gross intangible assets and the related accumulated amortization as of October 2, 2011 (In thousands):

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Patents	\$ 6,084	\$ (5,551)
Trademarks and trade names	29,908	0
Land use rights	455	(66)
Customer relationships	38,462	(13,520)
Backlog	1,623	(1,138)
Other	7,143	(3,403)
<b>Total</b>	<b>\$ 83,675</b>	<b>\$ (23,678)</b>
Net carrying value of intangible assets	\$ 59,997	

The table below presents estimated remaining amortization expense for intangible assets recorded as of October 2, 2011 (In thousands):

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>After 2015</b>
Estimated amortization expense	\$ 1,056	\$ 3,749	\$ 3,703	\$ 3,573	\$ 3,543	\$ 14,465

**Table of Contents****(6) Segment Information**

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

	Energy	Aerospace	Flow Technologies	Corporate/ Eliminations	Consolidated Total
<b>Three Months Ended October 2, 2011</b>					
Net revenues	\$ 103,300	\$ 32,681	\$ 73,980	\$ 0	\$ 209,961
Intersegment revenues	297	0	60	(357)	0
Operating income (loss)	7,441	1,846	10,008	(3,355)	15,940
Interest income					(69)
Interest expense					956
Other expense, net					354
Income before income taxes					\$ 14,699
Identifiable assets	363,976	193,992	193,791	(66,300)	685,459
Capital expenditures	1,610	1,295	408	479	3,792
Depreciation and amortization	1,858	1,280	1,446	283	4,867
<b>Three Months Ended October 3, 2010</b>					
Net revenues	\$ 80,613	\$ 28,316	\$ 68,648	\$ 0	\$ 177,577
Intersegment revenues	174	20	(372)	178	0
Operating income (loss)	8,968	2,726	6,966	(5,170)	13,490
Interest income					(69)
Interest expense					803
Other income, net					(853)
Income before income taxes					\$ 13,609
Identifiable assets	256,809	191,292	186,863	19,916	654,880
Capital expenditures	1,425	816	338	634	3,213
Depreciation and amortization	1,639	1,201	1,368	80	4,288
<b>Nine Months Ended October 2, 2011</b>					
Net revenues	\$ 284,464	\$ 100,820	\$ 219,955	\$ 0	\$ 605,239
Intersegment revenues	941	10	227	(1,178)	0
Operating income (loss)	18,208	9,593	28,416	(14,955)	41,262
Interest income					(166)
Interest expense					3,058
Other expense, net					1,830
Income before income taxes					\$ 36,540
Identifiable assets	363,976	193,992	193,791	(66,300)	685,459
Capital expenditures	5,022	3,037	1,842	1,353	11,254
Depreciation and amortization	5,751	3,712	4,483	612	14,558
<b>Nine Months Ended October 3, 2010</b>					
Net revenues	\$ 215,641	\$ 83,401	\$ 192,809	\$ 0	\$ 491,851
Intersegment revenues	461	20	114	(595)	0
Operating income (loss)	17,417	10,400	(7,580)	(16,122)	4,115
Interest income					(162)
Interest expense					2,036
Other income, net					(646)



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Income before income taxes					\$ 2,887
Identifiable assets	256,809	191,292	186,863	19,916	654,880
Capital expenditures	4,299	3,771	1,899	1,431	11,400
Depreciation and amortization	4,960	3,253	4,126	235	12,574

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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, 2010.

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 of assets for each operating segment has been reported as the Identifiable Assets for that segment, including inter-segment intercompany receivables, payables and investments in other CIRCOR companies. 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 as of October 2, 2011. Corporate Identifiable Assets, after elimination of intercompany assets, were \$35.4 million and \$67.9 million as of October 2, 2011 and October 3, 2010, respectively.

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

	00000000	00000000	00000000	00000000	00000000	00000000
	October 2, 2011		Three Months Ended		October 3, 2010	
	Net	Shares	Per	Net	Shares	Per
	Income		Share	Income		Share
			Amount			Amount
Basic Earnings per Common Share ( EPS )	\$ 10,947	17,266	\$ 0.63	\$ 10,399	17,123	\$ 0.61
Dilutive securities, common stock options	0	157	0	0	135	(0.01)
Diluted EPS	\$ 10,947	17,423	\$ 0.63	\$ 10,399	17,258	\$ 0.60

	00000000	00000000	00000000	00000000	00000000	00000000
	October 2, 2011		Nine Months Ended		October 3, 2010	
	Net	Shares	Per	Net	Shares	Per
	Income		Share	Income		Share
			Amount			Amount
Basic EPS	\$ 26,349	17,226	\$ 1.53	\$ 4,892	17,095	\$ 0.29
Dilutive securities, common stock options	0	186	(0.02)	0	143	(0.01)
Diluted EPS	\$ 26,349	17,412	\$ 1.51	\$ 4,892	17,238	\$ 0.28

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There were 179,021 and 282,504 anti-dilutive stock options and RSUs for the nine months ended October 2, 2011 and October 3, 2010, 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.

**Table of Contents***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 generally offset gains and losses on the related foreign currency denominated transactions. These forward contracts do not qualify as hedging instruments for accounting purposes 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 operations.

As of October 2, 2011, we had thirteen forward contracts with amounts as follows (in thousands):

Currency	Number	Contract Amount	
U.S. Dollar/GBP	5	3,376	U.S. Dollars
Euro/GBP	6	1,020	Euros
Brazilian Real/Euro	2	6,500	Brazilian Reals

This compares to eighteen forward contracts as of December 31, 2010. The fair value asset of the derivative forward contracts as of October 2, 2011 was approximately \$0.1 million and is included in prepaid expenses and other current assets on our balance sheet. This compares to a fair value liability of approximately \$1.7 million that was included in accrued expenses and other current liabilities on our balance sheet as of December 31, 2010.

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 820.1. 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) Comprehensive (Loss) Income**

Comprehensive (loss) income for the three and nine months ended October 2, 2011 and October 3, 2010 consists of the following (In thousands):

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Net income	\$ 10,947	\$ 10,399	\$ 26,349	\$ 4,892
Cumulative translation adjustments	(13,037)	17,510	(65)	(4,121)
<b>Total comprehensive (loss) income</b>	<b>\$ (2,090)</b>	<b>\$ 27,909</b>	<b>\$ 26,284</b>	<b>\$ 771</b>

**(10) Contingencies and Commitments****Asbestos and Bankruptcy Litigation***Background*

On July 12, 2010 (the Filing Date ), our subsidiary Leslie Controls, Inc. ( Leslie ) filed a voluntary petition (the Bankruptcy Filing ) under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware and, simultaneously, filed a pre-negotiated plan of reorganization (as amended, the Reorganization Plan or Plan ) in an effort to permanently resolve Leslie s exposure to asbestos-related product liability actions. On February 7, 2011, the U.S. Federal District Court for the District of Delaware (the District Court ) affirmed the Bankruptcy Court s earlier order confirming Leslie s Reorganization Plan, thus clearing the way for Leslie to emerge from bankruptcy. On April 28, 2011,

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pursuant to the terms of the Reorganization Plan, Leslie and CIRCOR contributed \$76.6 million in cash and a \$1 million promissory note (the Note ) to fund the Leslie Controls Asbestos Trust (the Trust ), and Leslie emerged from Chapter 11 bankruptcy protection. Under the terms of the Plan, all current and future asbestos related claims against Leslie, as well as all current and future derivative claims against CIRCOR, will now be permanently channeled to the Trust, and the only remaining financial obligation of Leslie and CIRCOR is payment of the Note. On September 30, 2011, the District Court entered an order for the final decree closing the Chapter 11 case. For a more detailed historical perspective on Leslie s asbestos related litigation and associated pre-bankruptcy liability accounting, see Item 3. Legal Proceedings in our Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010.

**Table of Contents***Accounting Indemnity and Defense Cost Liabilities and Assets*

During 2010, as a result of Leslie's Bankruptcy Filing and Reorganization Plan, we accrued liabilities based on the terms of the Reorganization Plan. As of December 31, 2010, we therefore recorded net Leslie asbestos and bankruptcy liabilities for resolution of pending and future claims of \$79.8 million (all classified as a current liability). As of October 2, 2011, the net liability decreased significantly with the funding of the Trust on April 28, 2011. A summary of Leslie's accrued liabilities, including contributions to the Trust under the Reorganization Plan for existing and future asbestos claims as well as incurred but unpaid asbestos defense cost liabilities and the related insurance recoveries, is provided below.

<b>In Thousands</b>	<b>October 2, 2011</b>	<b>December 31, 2010</b>
Existing claim indemnity liability	\$ 0	\$ 64
Amounts payable to 524(g) trust	1,000	77,625
Incurred defense cost liability	200	2,142
Insurance recoveries receivable	0	(38)
<b>Net Leslie asbestos and bankruptcy liability</b>	<b>\$ 1,200</b>	<b>\$ 79,793</b>

*2011 and 2010 Experience and Financial Statement Impact*

The following table provides information regarding the pre-tax Leslie asbestos and bankruptcy related costs (recoveries) for the three and nine months ended October 2, 2011. The \$0.2 million recovery for the three month period ended October 2, 2011 is the result of lower actual defense related expenses partially offset by additional bankruptcy related costs incurred for the three month period ended October 2, 2011 compared to amounts previously estimated.

<b>In Thousands</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 2, 2011</b>	<b>October 3, 2010</b>	<b>October 2, 2011</b>	<b>October 3, 2010</b>
Indemnity costs accrued (cases filed)	\$ 0	\$ 0	\$ 0	\$ 2,496
Adverse verdict appealed	0	0	0	(2,390)
Defense (recoveries) cost incurred	(306)	16	(306)	7,182
Insurance recoveries adjustment	0	0	0	(3,652)
Insurance recoveries accrued	0	0	0	(2,626)
Bankruptcy related costs	105	2,327	982	29,593
<b>Net pre-tax Leslie asbestos and bankruptcy (recoveries) charges</b>	<b>\$ (201)</b>	<b>\$ 2,343</b>	<b>\$ 676</b>	<b>\$ 30,603</b>

*Other Matters*

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

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.

**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 amount of these instruments was \$50.9 million at October 2, 2011. Our

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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 have expiration dates ranging from less than one month to six years as of October 2, 2011.

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The following table contains information related to standby letters of credit instruments outstanding as of October 2, 2011 (In thousands):

<b>Term Remaining</b>	<b>Maximum Potential Future Payments</b>
0-12 months	\$ 28,953
Greater than 12 months	21,985
<b>Total</b>	<b>\$ 50,938</b>

**(11) Defined Benefit Pension 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 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 employee 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 October 2, 2011, we made cash contributions of \$0.4 million and \$2.5 million, respectively, to our qualified defined benefit pension plan. For the remainder of 2011, we expect to make voluntary cash contributions 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.

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):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 2, 2011</b>	<b>October 3, 2010</b>	<b>October 2, 2011</b>	<b>October 3, 2010</b>
Service cost-benefits earned	\$ 108	\$ 100	\$ 323	\$ 300
Interest cost on benefits obligation	540	534	1,621	1,603
Estimated return on assets	(610)	(506)	(1,829)	(1,519)
Prior service cost amortization	0	0	0	0
Loss amortization	85	73	256	221
 Net periodic cost of defined benefit pension plans	 \$ 123	 \$ 201	 \$ 371	 \$ 605

**(12) Income Taxes**

As required by the Income Tax Topic of the ASC, we had \$1.3 million and \$1.6 million of unrecognized tax benefits at October 2, 2011 and December 31, 2010, respectively, all of which 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 October 2, 2011, we have approximately \$0.3 million of accrued interest related to uncertain tax positions.



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The Company files income tax returns in the U.S. federal jurisdiction and in various state, local and foreign jurisdictions. The Internal Revenue Service has concluded its examination of the Company for 2007. The Company is no longer subject to examination by the Internal Revenue Service for years prior to 2008 and is no longer subject to examination by the tax authorities in foreign and state jurisdictions prior to 2005. The Company is currently under examination for income tax filings in various state and foreign jurisdictions.

### **(13) 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 substantially recover 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 820.1 is minimal and, therefore, have no liabilities recorded from those agreements as of October 2, 2011.

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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 October 2, 2011 (In thousands):

Balance beginning December 31, 2010	\$ 2,508
Provisions	2,210
Claims settled	(1,590)
Currency translation adjustments	20
Balance ending October 2, 2011	<b>\$ 3,148</b>

**(14) Business Acquisitions**

On February 4, 2011, we acquired the stock of Valvulas S.F. Industria e Comercio Ltda. ( SF Valves ), a Sao Paulo, Brazil based manufacturer of valves for the energy market. SF Valves is reported in our Energy segment. In connection with this acquisition, as of October 2, 2011, we have recorded estimated fair values of \$5.7 million of current assets, \$7.6 million of fixed assets, \$6.4 million of current liabilities, \$3.8 million of long-term liabilities, and \$4.2 million of intangible assets. The preliminary excess of the purchase price over the fair value of the net identifiable assets of \$12.4 million is recorded as goodwill and may be deductible for Brazilian tax purposes. We are currently assessing income tax (including uncertain income tax positions), working capital, and indemnification items and anticipate finalizing our purchase price allocation during the fourth quarter of 2011.

**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, 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 and highly competitive nature of some of our end markets which can affect the overall demand for and pricing of our products, changes in the price of and demand for oil and gas in both domestic and international markets, variability of raw material and component pricing, changes in our suppliers' performance, fluctuations in foreign currency exchange rates, our ability to continue operating our manufacturing facilities at efficient levels including our ability to continue to reduce costs, our ability to generate increased cash by reducing our inventories, our prevention of the accumulation of excess inventory, our ability to successfully implement our acquisition strategy, fluctuations in interest rates, our ability to continue to successfully defend product liability actions including asbestos-related claims, 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, 2010, 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.*

**Overview**

CIRCOR International, Inc. designs, manufactures and markets valves and other highly engineered products and sub-systems used in the energy, aerospace and industrial markets. Within our major product groups, we develop, sell and service a portfolio of fluid-control products,

subsystems and technologies that enable us to fulfill our customers' unique fluid-control application needs.

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

We have been transforming our worldwide operations and culture through the development of lean manufacturing techniques ( *Lean* ) and the implementation of the CIRCOR Business System. The CIRCOR Business System is defined by our commitment 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 a commitment to core competencies across all of our business units, including talent acquisition and retention, operational excellence, business integration and repositioning, global business development, and new product development.

Our primary objective is to enhance shareholder value through profitable growth of our diversified, multi-national company utilizing the CIRCOR Business System. We strive to be a global growth company with great operational execution. We are working to accomplish these objectives by focusing on key end-markets that have above average growth with highly engineered product and project opportunities, including the up-stream and mid-stream oil and gas, power generation, process and aerospace markets. In these markets we are using the CIRCOR Business System to excel at:

Talent Acquisition, Development and Retention;

Lean Enterprise, Six Sigma and Continuous Improvement;

Acquisition Integration and Repositioning;

Global Manufacturing and Supply Chain Management;

Global Business Development; and

New Product Development.

Through organic and acquisition-based growth, our three to five year objectives are to double the revenue of CIRCOR, gain significant market positions in our key end-markets and build a global capability in high-growth emerging markets.

## **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.

## *Reclassifications*

Certain items in the prior period financial statements have been reclassified to conform to currently reported presentations.

## **Critical Accounting Policies**

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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, 2010. 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.

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### *Revenue Recognition*

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

### *Cash, Cash Equivalents, and Short-term Investments*

Cash and cash equivalents consist of amounts on deposit in checking and savings accounts with banks and other financial institutions. Short-term investments primarily consist of guaranteed investment certificates which generally have short-term maturities and are carried at cost which generally approximates fair value.

### *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 primarily determined 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. Future demand is generally based on actual usage of inventory on a line item basis over the past two years and is adjusted for forecasted future demand, current backlog levels and/or existing market conditions. 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 \$213.8 million as of October 2, 2011, compared to \$167.8 million as of December 31, 2010. Our inventory allowance as of October 2, 2011 was \$16.7 million, compared with \$16.7 million as of December 31, 2010. Our provision for inventory obsolescence was \$2.8 million and \$4.1 million for the first nine months of 2011 and 2010, respectively. For the nine months ended October 2, 2011, we have experienced increases in organic revenue, orders, and backlog. We believe our inventory allowances remain adequate with the net realizable value of our inventory being higher than our current inventory cost.

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 because of changing technology and customer requirements, we could be required to increase our inventory allowances and our gross profit could be adversely affected.

### *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 limited historical customer settlement experience and management's assessment of specific shipment delay information. As of October 2, 2011 and December 31, 2010, we had accrued \$9.2 million and \$7.9 million, respectively, related to these potential late shipment penalties. 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.

### *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 process and is generally concluded within twelve months of the acquisition. Our methodology for determining the fair values relating to acquisitions is determined through established valuation techniques for industrial manufacturing companies and we typically utilize third party valuation firms to assist in the valuation of certain tangible and intangible assets.

### *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

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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.

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### *Impairment Analysis*

As required by ASC Topic 350.1-3, Goodwill and Intangible Assets, we perform an annual assessment as to whether there was an indication that goodwill and certain intangible assets are impaired. We also perform impairment analyses whenever events and circumstances indicate that goodwill or certain intangibles may be impaired. 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 October 2, 2011 increased \$14.0 million to \$77.2 million compared to \$63.2 million as of December 31, 2010. This increase is primarily due to the acquisition of SF Valves. There were no indicators of impairment as of October 2, 2011.

### *Income Taxes*

For 2011, we expect an effective income tax rate of approximately 29.0%. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and vice versa. Changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or interpretations thereof may also adversely affect our future effective tax rate. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

The Company has a net foreign deferred tax liability and a domestic deferred income tax asset. With regard to deferred income tax assets, we maintained a total valuation allowance of \$9.2 million and \$10.1 million at October 2, 2011 and December 31, 2010, respectively, due to uncertainties related to our ability to utilize certain of these assets, primarily consisting of certain foreign tax credits, 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 taxable income, is able to avail itself of federal tax carryback provisions, has future taxable temporary differences and projects future domestic 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.

### *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 October 2, 2011, we made cash contributions of \$0.4 million and \$2.5 million, respectively, to our qualified defined benefit pension plan. For the remainder of 2011, we expect to make voluntary cash contributions 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.



**Table of Contents****Results of Operations for the Three Months Ended October 2, 2011 Compared to the Three Months Ended October 3, 2010.**

The following tables set forth the results of operations, percentage of net revenue and the period-to-period percentage change in certain financial data for the three months ended October 2, 2011 and October 3, 2010:

	October 2, 2011		Three Months Ended October 3, 2010		% Change
			(Dollars in thousands)		
Net revenues	\$ 209,961	100.0%	\$ 177,577	100.0%	18.2%
Cost of revenues	154,774	73.7%	126,096	71.0%	22.7%
Gross profit	55,187	26.3%	51,481	29.0%	7.2%
Selling, general and administrative expenses	39,448	18.8%	35,648	20.1%	10.7%
Leslie asbestos and bankruptcy (recoveries) charges	(201)	(0.1)%	2,343	1.3%	(108.6)%
Operating income	15,940	7.6%	13,490	7.6%	18.2%
Other expense (income):					
Interest expense, net	887	0.4%	734	0.4%	20.8%
Other expense (income), net	354	0.2%	(853)	(0.5)%	(141.5)%
Total other expense (income)	1,241	0.6%	(119)	(0.1)%	(1,142.9)%
Income before income taxes	14,699	7.0%	13,609	7.7%	8.0%
Provision for income taxes	3,752	1.8%	3,210	1.8%	16.9%
Net income	\$ 10,947	5.2%	\$ 10,399	5.9%	5.3%

*Net Revenues*

Net revenues for the three months ended October 2, 2011 increased by \$32.4 million, or 18%, to \$210.0 million from \$177.6 million for the three months ended October 3, 2010. The increase in net revenues for the three months ended October 2, 2011 was attributable to the following:

Segment	Three Months Ended		Total Change (In thousands)	Acquisitions	Operations	Foreign Exchange
	October 2, 2011	October 3, 2010				
Energy	\$ 103,300	\$ 80,613	\$ 22,687	\$ 3,046	\$ 17,051	\$ 2,590
Aerospace	32,681	28,316	4,365	0	3,929	436
Flow Technologies	73,980	68,648	5,332	0	4,216	1,116
Total	\$ 209,961	\$ 177,577	\$ 32,384	\$ 3,046	\$ 25,196	\$ 4,142

The Energy segment accounted for 49% of net revenues for the three months ended October 2, 2011 compared to 45% for the three months ended October 3, 2010. The Aerospace segment accounted for 16% of net revenues for the three months ended October 2, 2011 compared to 16% for the three months ended October 3, 2010. The Flow Technologies segment accounted for 35% of net revenues for the three months ended October 2, 2011 compared to 39% for the three months ended October 3, 2010.

Energy segment revenues increased by \$22.7 million, or 28%, for the quarter ended October 2, 2011 compared to the quarter ended October 3, 2010. The increase was driven by \$17.1 million of organic growth in all areas led by growth in our short-cycle North American businesses. The first quarter 2011 acquisition of SF Valves added an additional \$3.0 million in revenue and favorable foreign currency fluctuations added \$2.6 million. Orders for this segment decreased \$4.9 million to \$93.6 million for the three months ended October 2, 2011, compared to \$98.5 million

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for the three months ended October 3, 2010, due to fewer large international projects, partially offset by continued increases in North American short-cycle businesses and the favorable impact of the SF Valves acquisition. Backlog has increased by \$49.0 million to \$202.0 million as of October 2, 2011 compared to the same period in 2010.

Aerospace segment revenues increased by \$4.4 million, or 15%, for the quarter ended October 2, 2011 compared to the quarter ended October 3, 2010. The increase was primarily driven by organic growth of \$3.9 million due to higher volume shipments across most areas with the exception of military aftermarket. Favorable foreign currency fluctuations added an additional \$0.4 million. Orders for this segment increased \$31.5 million to \$62.8 million for the three months ended October 2, 2011 compared to \$31.3 million for the three months ended October 3, 2010. This order increase was largely due to a significant multi-year military landing gear order. Backlog increased by \$7.6 million to \$160.4 million as of October 2, 2011 compared to the same period in 2010. We believe that the commercial aerospace markets will see year over year improvement during 2011, however, we continue to see softness in overall military spending, especially in the aftermarket segment due to budget constraints and the winding down of military activities in Iraq and Afghanistan.

Flow Technologies segment revenues increased by \$5.3 million, or 8%, for the quarter ended October 2, 2011 compared to the quarter ended October 3, 2010. The revenue increase was due to organic growth of \$4.2 million and an increase of \$1.1 million due to

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favorable foreign currency fluctuations. With the exception of Light-emitting diode equipment ( LED equipment ) revenues, the organic revenue across most markets increased as compared to the three months ended October 3, 2010. Orders for this segment decreased \$6.6 million to \$70.8 million for the three months ended October 2, 2011 compared to \$77.4 million for the three months ended October 3, 2010 primarily due to a reduction of LED equipment market orders. Backlog has decreased by \$8.1 million to \$77.8 million as of October 2, 2011 compared to the same period in 2010, driven by lower LED equipment and maritime backlog, partially offset by increases in other Flow Technology markets.

*Gross Profit*

Consolidated gross profit increased \$3.7 million, or 7%, to \$55.2 million for the quarter ended October 2, 2011 compared to \$51.5 million for the quarter ended October 3, 2010. Consolidated gross margin decreased 270 basis points to 26.3% for the quarter ended October 2, 2011 from 29.0% for the quarter ended October 3, 2010.

Gross profit for the Energy segment increased \$2.5 million, or 13%, for the quarter ended October 2, 2011 compared to the quarter ended October 3, 2010. The gross profit increase was due to organic increases of \$2.5 million primarily from short-cycle North American businesses and a \$0.5 million positive impact from foreign currency fluctuations, partially offset by a \$0.5 million decrease from the SF Valves acquisition. Gross margins declined 290 basis points from 24.3% for the quarter ended October 3, 2010 to 21.4% for the quarter ended October 2, 2011. The decline was primarily driven by the dilutive impact of the SF Valves acquisition and unfavorable pricing in large international projects, partially offset by higher volume and favorable mix and short-cycle pricing.

Gross profit for the Aerospace segment decreased \$0.3 million, or 4%, for the quarter ended October 2, 2011 compared to the quarter ended October 3, 2010. Gross margins declined by 570 basis points from 34.4% for the quarter ended October 3, 2010 to 28.7% for the quarter ended October 2, 2011 primarily due to the ongoing integration of the August 2010 acquisition of Castle Precision Industries ( Castle ), unfavorable product mix and increased costs including those associated with new programs.

Gross profit for the Flow Technologies segment increased \$1.6 million, or 7%, for the quarter ended October 2, 2011 compared to the quarter ended October 3, 2010. Organic growth in most markets, partially offset by declines in LED equipment revenue, resulted in a \$1.2 million increase in gross profit, while favorable foreign currency fluctuations added \$0.4 million. Gross margins declined 30 basis points from 32.3% for the quarter ended October 3, 2010 to 32.0% for the quarter ended October 2, 2011 primarily due to unfavorable mix, mostly offset by favorable volume and productivity improvements.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased \$3.8 million, or 11%, to \$39.4 million for the quarter ended October 2, 2011 compared to \$35.6 million for the three months ended October 3, 2010. Selling, general and administrative expenses as a percentage of revenues decreased 130 basis points to 18.8% for the three months ended October 2, 2011 compared to 20.1% for the three months ended October 3, 2010.

Selling, general and administrative expenses for the Energy segment increased 38%, or \$4.0 million, compared to the third quarter 2010. Organic increases inclusive of higher selling resources and increased commissions accounted for \$2.5 million of the total increase. In addition, the SF Valves acquisition in the first quarter of 2011 added \$1.2 million in expenses and foreign currency fluctuations added \$0.4 million.

Selling, general and administrative expenses for the Aerospace segment increased 8%, or \$0.5 million, compared to the third quarter 2010 primarily due to expenses to support future programs. Foreign currency fluctuations and organic increases contributed \$0.2 million and \$0.3 million in expenses, respectively.

Selling, general and administrative expenses for the Flow Technologies segment increased 4%, or \$0.5 million, compared to the third quarter 2010 primarily due to investments in power market growth initiatives offset by productivity. Organic increases of \$0.2 million and foreign currency fluctuations of \$0.3 million accounted for the increase.

Corporate selling, general and administrative expenses decreased 27%, or \$1.3 million, in the third quarter of 2011 from the same period in 2010. The decrease was primarily due to the \$1.6 million payment of a settlement for a long-standing litigation matter, partially offset by higher incentive costs.

*Leslie Asbestos and Bankruptcy Related Charges, Net*

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Asbestos and bankruptcy related charges are primarily associated with our Leslie subsidiary in the Flow Technologies segment. Net asbestos and bankruptcy related costs decreased \$2.5 million to a net recovery of \$0.2 million for the three months ended October 2, 2011 compared to charges of \$2.3 million for the three months ended October 3, 2010. The \$0.2 million recovery of bankruptcy related costs for the three month period ended October 2, 2011 was a result of lower actual costs incurred as of October 2, 2011 compared to amounts previously estimated. For more information related to our Leslie asbestos and bankruptcy related charges, see Legal Proceedings in Part II, Item 1 hereof.

**Table of Contents***Operating Income*

The change in operating income for the three months ended October 2, 2011 compared to the three months ended October 3, 2010 was as follows:

Segment	Three Months Ended		Total Change (In thousands)	Acquisitions	Operations	Foreign Exchange
	October 2, 2011	October 3, 2010				
Energy	\$ 7,441	\$ 8,968	\$ (1,527)	\$ (1,696)	\$ 32	\$ 137
Aerospace	1,846	2,726	(880)	0	(752)	(128)
Flow Technologies	10,008	6,966	3,042	0	2,918	124
Corporate	(3,355)	(5,170)	1,815	0	1,822	(7)
<b>Total</b>	<b>\$ 15,940</b>	<b>\$ 13,490</b>	<b>\$ 2,450</b>	<b>\$ (1,696)</b>	<b>\$ 4,020</b>	<b>\$ 126</b>

Operating income increased 18%, or \$2.5 million, for the three months ended October 2, 2011 compared to the three months ended October 3, 2010, on an 18% increase in revenues.

Operating income for the Energy segment decreased \$1.5 million, or 17%, for the third quarter 2011, as operating margin decreased 390 basis points to 7.2% on an organic revenue increase of 28%, compared to the third quarter 2010. These decreases were primarily driven by the dilutive impact of the SF Valves acquisition and continued unfavorable pricing in large international projects, partially offset by favorable mix and expenses.

Operating income for the Aerospace segment decreased \$0.9 million, or 32%, for the third quarter of 2011 compared to the third quarter of 2010. The decrease in operating income was primarily due to the ongoing integration of the Castle acquisition and increased cost to support new programs, partially offset by favorable volume.

Operating income for the Flow Technologies segment increased \$3.0 million, or 44%, for the third quarter of 2011 compared to the third quarter of 2010. The most significant factors contributing to this increase were the \$2.5 million decrease in Leslie bankruptcy related charges, additional income from organic revenue increases and favorable foreign exchange fluctuations.

Corporate operating expenses decreased \$1.8 million for the third quarter 2011 compared to the third quarter 2010, primarily due to the payment of a settlement of a long-standing litigation matter.

*Interest Expense, Net*

Interest expense, net, increased \$0.2 million for the three months ended October 2, 2011 from the three months ended October 3, 2010. This increase in interest expense was primarily due to higher periodic interest charges due to higher debt borrowings.

*Other Expense, Net*

The Company reported other expense of \$0.4 million for the three months ended October 2, 2011 compared to other income of \$0.9 for the three months ended October 3, 2010. The increase in expense was largely the result of the remeasurement of foreign currency balances.

*Provision for Taxes*

The effective income tax rate was 25.5% and 23.6% for the third quarters of 2011 and 2010, respectively. The increase in the income tax rate for the third quarter of 2011 compared to the third quarter of 2010 was primarily due to a higher proportion of U.S. domestic income versus foreign income taxed at lower income tax rates, partially offset by certain discrete items including a change in the UK tax rate and foreign credit utilization.

*Net Income*

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Net income increased \$0.5 million to \$10.9 million in the third quarter 2011 on 18% higher revenues, compared to the same quarter in 2010. The increase in net income was primarily the result of a decrease in Leslie bankruptcy-related charges and a corporate litigation settlement, partially offset by lower segment operating income during the third quarter of 2011.

**Table of Contents****Results of Operations for the Nine Months Ended October 2, 2011 Compared to the Nine Months Ended October 3, 2010.**

The following tables set forth the results of operations, percentage of net revenue and the period-to-period percentage change in certain financial data for the nine months ended October 2, 2011 and October 3, 2010:

	October 2, 2011		Nine Months Ended October 3, 2010		% Change
	(Dollars in thousands)				
Net revenues	\$ 605,239	100.0%	\$ 491,851	100.0%	23.1%
Cost of revenues	439,218	72.6%	348,109	70.8%	26.2%
Gross profit	166,021	27.4%	143,742	29.2%	15.5%
Selling, general and administrative expenses	124,083	20.5%	109,024	22.2%	13.8%
Leslie asbestos and bankruptcy charges	676	0.1%	30,603	6.2%	(97.8)%
Operating income	41,262	6.8%	4,115	0.8%	902.7%
Other expense (income):					
Interest expense, net	2,892	0.5%	1,874	0.4%	54.3%
Other expense (income), net	1,830	0.3%	(646)	(0.1)%	(383.3)%
Total other expense	4,722	0.8%	1,228	0.2%	284.5%
Income before income taxes	36,540	6.0%	2,887	0.6%	1,165.7%
Provision (benefit) for income taxes	10,191	1.7%	(2,005)	(0.4)%	(608.3)%
Net income	\$ 26,349	4.4%	\$ 4,892	1.0%	438.6%

*Net Revenues*

Net revenues for the nine months ended October 2, 2011 increased by \$113.3 million, or 23%, to \$605.2 million from \$491.9 million for the nine months ended October 3, 2010. The increase in net revenues for the nine months ended October 2, 2011 was attributable to the following:

Segment	Nine Months Ended		Total Change (In thousands)	Acquisitions	Operations	Foreign Exchange
	October 2, 2011	October 3, 2010				
Energy	\$ 284,464	\$ 215,641	\$ 68,823	\$ 9,392	\$ 51,624	\$ 7,807
Aerospace	100,820	83,401	17,419	8,571	6,953	1,895
Flow Technologies	219,955	192,809	27,146	1,739	20,602	4,805
Total	\$ 605,239	\$ 491,851	\$ 113,388	\$ 19,702	\$ 79,179	\$ 14,507

The Energy segment accounted for 47% of net revenues for the nine months ended October 2, 2011 compared to 44% for the nine months ended October 3, 2010. The Aerospace segment accounted for 17% of net revenues for the nine months ended October 2, 2011 compared to 17% for the nine months ended October 3, 2010. The Flow Technologies segment accounted for 36% of net revenues for the nine months ended October 2, 2011 compared to 39% for the nine months ended October 3, 2010.

Energy segment revenues increased by \$68.8 million, or 32%, for the nine months ended October 2, 2011 compared to the nine months ended October 3, 2010. The increase was primarily driven by \$51.6 million of organic growth across the segment, particularly from the short-cycle North American businesses. This increase is also due to \$9.4 million in revenue from the first quarter 2011 acquisition of SF Valves and \$7.8 million of favorable foreign currency fluctuations. Orders for this segment increased \$66.5 million to \$310.6 million for the nine months ended

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October 2, 2011 compared to \$244.1 million for the nine months ended October 3, 2010 due to strength in all areas, including large international projects, which have rebounded from the low order intake recorded during 2010.

Aerospace segment revenues increased by \$17.4 million, or 21%, for the nine months ended October 2, 2011 compared to the nine months ended October 3, 2010. \$8.6 million of the increase was driven by acquisitions, primarily the August 2010 acquisition of Castle. Additional increases were due to organic growth of \$7.0 million across most areas with the exception of military aftermarket and favorable foreign currency fluctuations of \$1.9 million. Orders for this segment increased \$36.0 million to \$129.1 million for the nine months ended October 2, 2011 compared to \$93.1 million for the nine months ended October 3, 2010. This order increase was primarily due to the positive impact of acquisitions and a large multi-year military landing gear order placed in the third quarter of 2011.



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Flow Technologies segment revenues increased by \$27.1 million, or 14%, for the nine months ended October 2, 2011 compared to the nine months ended October 3, 2010. The revenue increase was due to organic growth across most businesses of \$20.6 million, including maritime and process and industrial markets. An additional increase of \$4.8 million was due to favorable foreign currency fluctuations. Mazda Ltd. ( Mazda ), which we acquired in the second quarter of 2010 added \$1.7 million in revenues. Orders for this segment increased \$11.8 million to \$222.6 million for the nine months ended October 2, 2011 compared to \$210.8 million for the nine months ended October 3, 2010, with improvement in most markets excluding the LED equipment market.

*Gross Profit*

Consolidated gross profit increased \$22.3 million to \$166.0 million for the nine months ended October 2, 2011 compared to \$143.7 million for the nine months ended October 3, 2010. Consolidated gross margin decreased 180 basis points to 27.4% for the nine months ended October 2, 2011 compared to 29.2% for the nine months ended October 3, 2010.

Gross profit for the Energy segment increased \$10.9 million, or 21%, for the nine months ended October 2, 2011 compared to the nine months ended October 3, 2010. The gross profit increase was primarily due to \$9.4 million of organic revenue increases and \$1.5 million in higher foreign exchange rates compared to the U.S. dollar. Gross margins declined 200 basis points from 23.9% for the nine months ended October 3, 2010 to 21.9% for the nine months ended October 2, 2011. This decline was primarily driven by pricing pressures, especially in large international projects, partially offset by favorable volume and the associated leverage, especially in our North American businesses.

Gross profit for the Aerospace segment increased \$2.2 million, or 7%, for the nine months ended October 2, 2011 compared to the nine months ended October 3, 2010. This gross profit increase was primarily due to \$1.8 million from the August 2010 acquisition of Castle and \$0.5 million due to favorable foreign currency fluctuations, partially offset by organic decreases of \$0.1 million. Gross margins declined by 430 basis points from 37.3% for the nine months ended October 3, 2010 to 33.0% for the nine months ended October 2, 2011 primarily due to the dilution from the Castle acquisition, unfavorable product mix and increased cost including those associated with new programs, partially offset by the increased volume and associated leverage.

Gross profit for the Flow Technologies segment increased \$9.3 million, or 15%, for the nine months ended October 2, 2011 compared to the nine months ended October 3, 2010. Organic growth in most markets resulted in a \$7.0 million increase in gross profit, while our recently acquired Mazda business added \$0.7 million and favorable foreign currency fluctuations added another \$1.6 million. Gross margins improved 30 basis points from 31.7% for the nine months ended October 3, 2010 to 32.0% for the nine months ended October 2, 2011 primarily due to increased volume and the associated leverage, partially offset by unfavorable product mix.

*Selling, General and Administrative Expenses*

Consolidated selling, general and administrative expenses increased \$15.1 million, or 14%, to \$124.1 million for the nine months ended October 2, 2011 compared to \$109.0 million for the nine months ended October 3, 2010. Consolidated selling, general and administrative expenses as a percentage of revenues decreased 170 basis points to 20.5% for the nine months ended October 2, 2011 compared to 22.2% for the nine months ended October 3, 2010.

Selling, general and administrative expenses for the Energy segment increased 29%, or \$10.1 million, compared to the first nine months of 2010. Organic increases, inclusive of higher commissions, increased selling resources and higher acquisition-related expenses accounted for \$5.8 million of the total increase. In addition, the SF Valves acquisition in the first quarter of 2011 added \$2.8 million in expenses and foreign currency fluctuations added \$1.5 million.

Selling, general and administrative expenses for the Aerospace segment increased 15%, or \$3.0 million, for the first nine months of 2011 compared to the first nine months of 2010. This increase was due to acquisitions that added \$2.0 million in expenses, primarily from the Castle acquisition, organic increases of \$0.5 million and foreign currency fluctuations that added \$0.5 million in expenses.

Selling, general and administrative expenses for the Flow Technologies segment increased 5%, or \$1.9 million, for the first nine months of 2011 compared to the first nine months of 2010 primarily due to a \$0.7 million increase attributable to the Mazda acquisition and a \$0.9 million increase due to foreign currency fluctuations.

Corporate selling, general and administrative expenses increased 1%, or \$0.1 million, for the first nine months of 2011 compared to the same period in 2010. The increase was primarily due to higher incentive costs and share based compensation, partially offset by a 2011 \$1.6 million payment of a settlement of a long-standing litigation matter.

*Leslie Asbestos and Bankruptcy Related Charges, Net*

Asbestos and bankruptcy related charges are primarily associated with our Leslie subsidiary in the Flow Technologies segment. Net asbestos and bankruptcy related costs decreased \$29.9 million to \$0.7 million for the nine months ended October 2, 2011

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compared to \$30.6 million for the nine months ended October 3, 2010. This decrease was due to the bankruptcy filing of our Leslie subsidiary and its emergence from bankruptcy during the nine months ended October 3, 2010. For more information related to our Leslie asbestos and bankruptcy related charges, see *Legal Proceedings* in Part II, Item 1 hereof.

*Operating Income*

The change in operating income for the nine months ended October 2, 2011 compared to the nine months ended October 3, 2010 was as follows:

Segment	Nine Months Ended		Total Change (In thousands)	Acquisitions	Operations	Foreign Exchange
	October 2, 2011	October 3, 2010				
Energy	\$ 18,208	\$ 17,417	\$ 791	\$ (2,879)	\$ 3,629	\$ 41
Aerospace	9,593	10,400	(807)	(200)	(576)	(31)
Flow Technologies	28,416	(7,580)	35,996	(72)	35,361	707
Corporate	(14,955)	(16,122)	1,167	0	1,178	(11)
<b>Total</b>	<b>\$ 41,262</b>	<b>\$ 4,115</b>	<b>\$ 37,147</b>	<b>\$ (3,151)</b>	<b>\$ 39,592</b>	<b>\$ 706</b>

Operating income increased \$37.2 million, or 903%, to \$41.3 million for the nine months ended October 2, 2011 from \$4.1 million for the nine months ended October 3, 2010.

Operating income for the Energy segment increased \$0.8 million, or 5%, for the first nine months of 2011, compared to the same period in 2010. The increase in operating income was primarily due to the significant volume increase and the associated leverage in our North American businesses, offset by the impact of pricing pressures, especially in large international projects, and the costs associated with the SF Valves acquisition.

Operating income for the Aerospace segment decreased \$0.8 million, or 8%, for the first nine months of 2011 compared to the same period in 2010. The decrease in operating income was primarily due to the ongoing costs associated with the integration of Castle and other increased costs, including those associated with new programs, partially offset by favorable volume.

Operating income for the Flow Technologies segment increased \$36.0 million, or 475%, for the first nine months of 2011 compared to the same period in 2010. The most significant factor contributing to this increase was a \$28.6 million decrease in Leslie asbestos and bankruptcy related charges, as well as \$5.5 million of additional income from organic revenue increases at most businesses during the first nine months of 2011.

Corporate operating expenses decreased \$1.2 million, or 8%, for the first nine months of 2011 compared to the same period in 2010, largely due to a 2011 payment of a litigation settlement and lower Leslie bankruptcy related charges.

*Interest Expense, Net*

Interest expense, net, increased \$1.0 million for the nine months ended October 2, 2011 from the nine months ended October 3, 2010. This increase in interest expense was primarily due to higher interest charges from higher borrowings associated with our revolving credit facility and other borrowings.

*Other Expense, Net*

The Company reported other expense of \$1.8 million for the nine months ended October 2, 2011 compared to other income of \$0.6 for the nine months ended October 3, 2010. The \$2.4 million difference was largely the result of the remeasurement of foreign currency balances.

*Provision (Benefit) for Taxes*

The effective income tax rate was 27.9% and (69.5%) for the nine month periods ended October 2, 2011 and October 3, 2010, respectively. The 27.9% tax rate in 2011 includes offsets by discrete items including a change in the UK tax rate and foreign tax credit utilization. The rate for the

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nine months ended October 3, 2010 would have been 24.4% without the one-time cost recognized in association with the Leslie bankruptcy. The primary driver of the lower 2010 calculation was the higher mix of lower tax foreign income.

**Table of Contents***Net Income*

Net income increased \$21.4 million to \$26.3 million for the nine months ended October 2, 2011 compared to \$4.9 million for the nine months ended October 3, 2010. The increase in net income was primarily the result of the decrease in Leslie bankruptcy related charges.

**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, and debt service costs. Excluding our first quarter results in 2010 and 2009, as well as our second and third quarters of 2011, we have historically generated cash from operations. We believe we 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 October 2, 2011 (In thousands):

Cash flow provided by (used in):	
Operating activities	\$ (70,678)
Investing activities	(31,391)
Financing activities	95,343
Effect of exchange rates on cash and cash equivalents	228
Decrease in cash and cash equivalents	\$ (6,498)

During the nine months ended October 2, 2011, we used \$70.7 million in cash from operating activities compared to generating \$17.1 million during the nine months ended October 3, 2010. The higher amount of cash used in operating activities was primarily due to the payment of \$76.6 million in April 2011 to fund the Leslie Controls Asbestos Trust (as described in more detail in Part II, Item I, Legal Proceedings hereof), partially offset by higher net income compared to the first nine months of 2010. The \$31.4 million used in investing activities primarily consisted of fixed asset additions and cash used to acquire SF Valves in the first quarter 2011. Financing activities provided \$95.3 million, which included a net \$98.2 million of proceeds from borrowings that were used to partially fund the Leslie Controls Asbestos Trust in April 2011, the SF Valves acquisition in the first quarter of 2011 and for working capital purposes. Financing activities also include \$2.0 million used to pay dividends to shareholders and \$2.0 million in debt issuance costs related to the new five year unsecured credit agreement we entered into in May 2011.

As of October 2, 2011, total debt was \$103.5 million compared to \$1.5 million as of December 31, 2010. During February 2011, we borrowed \$25.5 million from our existing credit facilities for the acquisition of SF Valves. In April 2011, we borrowed an additional \$76.6 million to fund the Leslie Controls Asbestos Trust. Total debt as a percentage of total shareholders' equity was 27% as of October 2, 2011 compared to less than 1% as of December 31, 2010.

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 using 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 October 2, 2011, we had borrowings of \$85.0 million outstanding under our credit facility and \$50.9 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 at October 2, 2011 and December 31, 2010 and we believe it is reasonably likely that we will continue to meet such covenants in the near future.

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The ratio of current assets to current liabilities was 2.24:1 at October 2, 2011, compared to 1.62:1 at December 31, 2010. Cash and cash equivalents were \$39.3 million as of October 2, 2011, compared to \$45.8 million as of December 31, 2010. A majority of this cash is located at our foreign subsidiaries and may not be repatriated to the United States or other jurisdictions without significant tax implications.

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,

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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 2011, excluding the April transaction to fund the Leslie Asbestos Trust, we expect to generate positive cash flow from operating activities sufficient to support our capital expenditures and pay dividends approximating \$2.6 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 facilities, 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, other than operating leases, 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 October 2, 2011, 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 \$85.0 million borrowed under our revolving credit facility as of October 2, 2011. Based upon expected levels of borrowings under our credit facility in 2011, an increase in variable interest rates of 100 basis points would have an effect on our annual results of operations and cash flows of \$0.2 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 generally offset gains and losses on the related foreign currency denominated transactions. These forward contracts do not qualify as hedging instruments for accounting purposes 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 operations.

As of October 2, 2011, we had thirteen forward contracts with amounts as follows (in thousands):

Currency	Number	Contract Amount	
U.S. Dollar/GBP	5	3,376	U.S. Dollars
Euro/GBP	6	1,020	Euros
Brazilian Real/Euro	2	6,500	Brazilian Reals

This compares to eighteen forward contracts as of December 31, 2010. The fair value asset of the derivative forward contracts as of October 2, 2011 was approximately \$0.1 million and is included in prepaid expenses and other current assets on our balance sheet. This compares to a fair value liability of approximately \$1.7 million that was included in accrued expenses and other current liabilities on our balance sheet as of December 31, 2010.

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 Topic 820.1. The credit valuation adjustments, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves 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 report on



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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 October 2, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION.****ITEM 1. LEGAL PROCEEDINGS.****Asbestos and Bankruptcy Litigation***Background*

On July 12, 2010 (the Filing Date), our subsidiary Leslie Controls, Inc. (Leslie) filed a voluntary petition (the Bankruptcy Filing) under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware and, simultaneously, filed a pre-negotiated plan of reorganization (as amended, the Reorganization Plan or Plan) in an effort to permanently resolve Leslie's exposure to asbestos-related product liability actions. On February 7, 2011, the U.S. Federal District Court for the District of Delaware (the District Court) affirmed the Bankruptcy Court's earlier order confirming Leslie's Reorganization Plan, thus clearing the way for Leslie to emerge from bankruptcy. On April 28, 2011, pursuant to the terms of the Reorganization Plan, Leslie and CIRCOR contributed \$76.6 million in cash and a \$1 million promissory note (the Note) to fund the Leslie Controls Asbestos Trust (the Trust), and Leslie emerged from Chapter 11 bankruptcy protection. Under the terms of the Plan, all current and future asbestos related claims against Leslie, as well as all current and future derivative claims against CIRCOR, will now be permanently channeled to the Trust, and the only remaining financial obligation of Leslie and CIRCOR is payment of the Note. On September 30, 2011, the District Court entered an order for the final decree closing the Chapter 11 case. For a more detailed historical perspective on Leslie's asbestos related litigation and associated pre-bankruptcy liability accounting, see Item 3. Legal Proceedings in our Annual Report on Form 10-K for the Fiscal Year ended December 31, 2010.

*Accounting Indemnity and Defense Cost Liabilities and Assets*

During 2010, as a result of Leslie's Bankruptcy Filing and Reorganization Plan, we accrued liabilities based on the terms of the Reorganization Plan. As of December 31, 2010, we therefore recorded net Leslie asbestos and bankruptcy liabilities for resolution of pending and future claims of \$79.8 million (all classified as a current liability). As of October 2, 2011, the net liability decreased significantly with the funding of the Trust on April 28, 2011. A summary of Leslie's accrued liabilities, including contributions to the Trust under the Reorganization Plan for existing and future asbestos claims as well as incurred but unpaid asbestos defense cost liabilities and the related insurance recoveries, is provided below.

In Thousands	October 2, 2011	December 31, 2010
Existing claim indemnity liability	\$ 0	\$ 64
Amounts payable to 524(g) trust	1,000	77,625
Incurred defense cost liability	200	2,142
Insurance recoveries receivable	0	(38)
<b>Net Leslie asbestos and bankruptcy liability</b>	<b>\$ 1,200</b>	<b>\$ 79,793</b>

*2011 and 2010 Experience and Financial Statement Impact*

The following table provides information regarding the pre-tax Leslie asbestos and bankruptcy related costs (recoveries) for the three and nine months ended October 2, 2011. The \$0.2 million recovery for the three month period ended October 2, 2011 is the result of lower actual defense

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related expenses partially offset by additional bankruptcy related costs incurred for the three month period ended October 2, 2011 compared to amounts previously estimated.

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In Thousands	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Indemnity costs accrued (cases filed)	\$ 0	\$ 0	\$ 0	\$ 2,496
Adverse verdict appealed	0	0	0	(2,390)
Defense (recoveries) cost incurred	(306)	16	(306)	7,182
Insurance recoveries adjustment	0	0	0	(3,652)
Insurance recoveries accrued	0	0	0	(2,626)
Bankruptcy related costs	105	2,327	982	29,593
Net pre-tax Leslie asbestos and bankruptcy (recoveries) charges	\$ (201)	\$ 2,343	\$ 676	\$ 30,603

*Other Matters*

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

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.

**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, 2010.

**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 October 2, 2011 and December 31, 2010. 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. (REMOVED AND RESERVED).****ITEM 5. OTHER INFORMATION.**

None.



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**ITEM 6. EXHIBITS.**

**Exhibit**

<b>No.</b>	<b>Description and Location</b>
2	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession:
2.1	Distribution Agreement by and between Watts Industries, Inc. and CIRCOR International, Inc., dated as of October 1, 1999, is incorporated herein by reference to Exhibit 2.1 to Amendment No. 2 to CIRCOR International, Inc.'s Registration Statement on Form 10-12B, File No. 000-26961, filed with the Securities and Exchange Commission on October 6, 1999.
3	Articles of Incorporation and By-Laws:
3.1	Amended and Restated Certificate of Incorporation of CIRCOR International, Inc., is incorporated herein by reference to Exhibit 3.1 to CIRCOR International, Inc.'s Form 10-Q, File No. 001-14962, filed with the Securities and Exchange Commission on October 29, 2009.
3.2	Amended and Restated By-Laws of CIRCOR International, Inc., is incorporated herein by reference to Exhibit 3.2 to CIRCOR International, Inc.'s Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on February 26, 2009.
3.3	Certificate of Amendment to the Amended and Restated Bylaws of CIRCOR International, Inc., is incorporated herein by reference to Exhibit 3.3 to CIRCOR International, Inc.'s Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on February 26, 2009.
3.4	Amended and Restated Certificate of Designations of Series A Junior Participating Cumulative Preferred Stock of CIRCOR International, Inc., is incorporated herein by reference to Exhibit 3.4 to CIRCOR International, Inc.'s Form 10-Q, File No. 001-14962, filed with the Securities and Exchange Commission on October 29, 2009.
4	Instruments Defining the Rights of Security Holders, Including Indentures:
4.1	Shareholder Rights Agreement, dated as of September 23, 2009, between CIRCOR International, Inc. and American Stock Transfer & Trust Company LLC, is incorporated herein by reference to Exhibit 4.1 to CIRCOR International, Inc.'s Form 8-A, File No. 001-14962, filed with the Securities and Exchange Commission on September 28, 2009.
4.2	Specimen certificate representing the Common Stock of CIRCOR International, Inc., is incorporated herein by reference to Exhibit 4.1 to Amendment No. 1 to CIRCOR International, Inc.'s Registration Statement on Form 10-12B, File No. 000-26961, filed with the Securities and Exchange Commission on September 22, 1999.
10	Material Contracts:
10.1*	Executive Change of Control Agreement between CIRCOR, Inc. and Michael Dill, dated August 2, 2011.
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 October 2, 2011, as filed with the SEC on November 3, 2011, formatted in XBRL (eXtensible Business Reporting Language), as follows: <ul style="list-style-type: none"> <li>(i) Consolidated Balance Sheets as of October 2, 2011 (unaudited) and December 31, 2010</li> <li>(ii) Consolidated Statement of Operations for the Three and Nine Months Ended October 2, 2011 and October 3, 2010 (Unaudited)</li> <li>(iii) Consolidated Statements of Cash Flows for the Nine Months Ended October 2, 2011 and October 3, 2010 (Unaudited)</li> <li>(iv) Notes to Consolidated Financial Statements (Unaudited)</li> </ul>

\* Filed with this report.

\*\* Furnished with this report.



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Indicates management contract or compensatory plan or arrangement.

§ As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

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**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.**

**Date: November 3, 2011**

**/s/ A. William Higgins**  
**A. William Higgins**  
**President and Chief Executive Officer**  
*Principal Executive Officer*

**Date: November 3, 2011**

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

**Date: November 3, 2011**

**/s/ JOHN F. KOBER**  
**John F. Kober**  
**Vice President, Corporate Controller**  
*Principal Accounting Officer*