

CIRCOR INTERNATIONAL INC

Form 10-K

March 10, 2008

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to

Commission File Number 001-14962

## CIRCOR INTERNATIONAL, INC.

(A Delaware Corporation)

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

c/o Circor, Inc.

Suite 130

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25 Corporate Drive, Burlington, MA 01803-4238

Telephone: (781) 270-1200

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

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

**Preferred Stock Purchase Rights**

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

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

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

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

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

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

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

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

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

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

**DOCUMENTS INCORPORATED BY REFERENCE**

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

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Part I

**Item 1. Business**

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

**Available Information**

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

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### **Our History**

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

### **Our Business**

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

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

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

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

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

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

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

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

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

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

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

## **Industry**

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

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

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



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

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

## **Our Business Objectives and Strategies**

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

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

Improve the profitability of our business;

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

Increase product offerings; and

Expand our geographic coverage.

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

## **Products**

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

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

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

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

**Sales and Distribution**

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

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

**Manufacturing**

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

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

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

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

## **Quality Control**

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

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

## **Product Development**

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

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

## **Raw Materials**

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

## **Competition**

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

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

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

## **Trademarks and Patents**

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

## **Customers, Cyclicity and Seasonality**

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

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

## **Backlog**

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

## **Employees**

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

## **Segment and Geographic Financial Data**

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

## **Government Regulation Regarding the Environment**

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

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



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

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**Item 1A. Risk Factors**

Certain Risk Factors That May Affect Future Results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

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

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

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

### **Item 3. Legal Proceedings**

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

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

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

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

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

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

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

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

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

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

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

- the severity of the injuries alleged by each pending claimant;
- increases or decreases in Leslie's average settlement costs;
- possible adverse or favorable jury verdicts;
- rulings on unresolved legal issues in various jurisdictions that bear on Leslie's legal liability;
- the numbers of claims that will be dismissed with no indemnity payments;
- the impact of potential changes in legislative or judicial standards in different jurisdictions;
- the potential bankruptcies of other companies named as defendants in asbestos-related claims.

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

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



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

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

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

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

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

## **Part II**

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

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

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

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

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



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

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

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

**Item 6. Selected Financial Data**

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

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

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

**Selected Financial Data**

(In thousands, except per share data)

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

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

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

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

**Overview**

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

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

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

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

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

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

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

## **Basis of Presentation**

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

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

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

### **Critical Accounting Policies**

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

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

#### Revenue Recognition

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

#### Allowance for Inventory

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

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

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

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

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

## Purchase Accounting

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

## Legal Contingencies

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

## Impairment Analysis

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

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





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

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

**Income Taxes**

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

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

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

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

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

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

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

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

## **Pension Benefits**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Net Revenue**

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

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

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



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

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

## **Gross Profit**

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

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

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

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

### **Selling, General and Administrative Expenses**

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

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

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

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



**Table of Contents****Special Charges**

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

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

**Operating Income**

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

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

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

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

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



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### **Interest Expense, Net**

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

### **Other Income, Net**

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

### **Provision for Income Taxes**

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

### **Net Income**

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

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

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

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

**Net Revenue**

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

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

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



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

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

## **Gross Profit**

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

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

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

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

### **Selling, General and Administrative Expenses**

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

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

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

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

### **Special Charges**

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

**Table of Contents****Operating Income**

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

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

Operating income increased \$14.5 million, or 44%, to \$47.5 million for the year ended December 31, 2006 from \$33.0 million for the year ended December 31, 2005, on a 31% increase in revenues in 2006.

Operating income for the Instrumentation and Thermal Fluid Controls Products segment for the year ended December 31, 2006 was essentially unchanged from 2005, as its operating margin decreased 230 basis points to 8.8% in 2006 on a revenue increase of 24% compared to 2005. Results from operations were net of the decreased profitability in certain of our ongoing business that was offset by the incremental earnings from our February 2006 acquisition of Hale Hamilton and the October 2005 acquisition of Industria. Our ongoing businesses in this segment were hampered by higher raw material costs, especially stainless steel, unforeseen costs to counteract decreased vendor responsiveness, and lower factory productivity.

Operating income for the Energy Products segment increased \$17.0 million, or 89% for the year ended December 31, 2006, as its operating margin increased 330 basis points to 12.9% in 2006 on a revenue increase of 40% compared to 2005. Its increased operating income benefited from a higher volume of shipments; savings from facility consolidations in 2005; price increases to customers; further foreign sourcing that reduced cost of goods sold; as well as the incremental contribution from our 2006 acquisition of Sagebrush.

**Interest Expense, Net**

Interest expense, net, increased \$2.3 million to \$5.1 million for the year ended December 31, 2006 compared to approximately \$2.8 million for the year ended December 31, 2005. The increase in interest expense, net was primarily due to borrowings from our revolving credit facility, to fund the cash purchases of two acquisitions in February 2006, partially offset by the \$15.0 million lower outstanding balance of our 8.23% senior unsecured notes since the principal payment in October 2005 and final principal payment in October 2006.



**Table of Contents****Provision for Taxes**

The effective tax rate was 30.6% for the year ended December 31, 2006 which was a 1.6% decrease from 32.2% for the year ended December 31, 2005. This effective tax rate reduction is due to higher domestic and international tax benefits and credits in 2006 including legislation that passed in November 2006, which extended the research credits retroactive to January 2006. The increase in income taxes in the year ended December 31, 2006 compared to the year ended December 31, 2005 was due to higher income before income taxes offset by the lower 2006 tax rate.

**Net Income**

Net income increased \$8.9 million or 44% to \$29.3 million for the year ended December 31, 2006 on a 31% increase in revenues, compared to 2005. This net increase is primarily attributable to: incremental profit from acquisitions, the increased profitability of our Energy Products segment, and a lower income tax rate, all of which were partially offset by higher corporate expenses and interest expense.

**Liquidity and Capital Resources**

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

The following table summarizes our cash flow activities for the periods indicated (In thousands):

	Year Ended December 31,	
	2007	2006
Cash flow provided by (used in):		
Operating activities	\$ 56,916	\$ 29,858
Investing activities	(16,831)	(68,239)
Financing activities	(35,529)	34,148
Effect of exchange rates on cash balances	1,454	1,773
Increase (Decrease) in cash and cash equivalents	\$ 6,010	\$ (2,460)

During the twelve months ended December 31, 2007, we generated \$56.9 million in cash flow from operating activities which was \$27.0 million more than the cash flow generated during the twelve months ended December 31, 2006, primarily due to more efficient use of working capital as well as higher net income compared to 2006. The \$16.8 million used by investing activities included \$12.0 million used for the net purchase of capital equipment, \$8.8 million for the purchase of investments, and \$2.7 million for the SEI acquisition offset by \$6.6 million in proceeds from the sale of assets, property, plant, and equipment as well as a sale of an affiliate. Financing activities used \$35.5 million which



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included: a net \$43.0 million of debt payments and \$2.5 million in dividends paid to shareholders, offset by \$10.0 million of proceeds from the exercise of share-based compensation and related income tax effects.

As of December 31, 2007, total debt was \$22.1 compared to \$64.8 million for the year ended 2006. Total debt as a percentage of total shareholders equity was 5% as of December 31, 2007 compared to 18.0% as of December 31, 2006.

In December 2005, we entered into a new five-year, unsecured bank agreement that provided a \$95 million revolving credit facility and we terminated the previously available \$75 million revolving credit facility. In October 2006 we amended our credit agreement to increase the unsecured revolving credit facility to \$125 million. The \$125 million revolving credit facility is available to support our acquisition program, working capital requirements and general corporate purposes. At December 31, 2007, we had borrowings of \$16.2 million outstanding under our revolving credit facility and \$41.8 million 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; transfer assets among domestic and international entities; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. We were in compliance with all covenants related to our existing debt obligations at December 31, 2007 and December 31, 2006.

The ratio of current assets to current liabilities was 1.86:1 at December 31, 2007 compared to 2.0:1 at December 31, 2006. Cash and cash equivalents were \$34.7 million as of December 31, 2007 compared to \$28.7 million as of December 31, 2006.

In 2008, we expect cash flow from operating activities to be between \$55 million to \$60 million, with expected uses for capital expenditures of nearly \$17 million, \$20 million for payments to reduce our outstanding revolving credit facility balance and dividends approximating \$2.5 million based on our current dividend practice of paying \$0.15 per share annually. Based on our expected cash flows from operations, available credit facilities, and ability to further leverage the balance sheet, we expect to have sufficient liquidity to fund working capital needs and future growth. We continue to search for strategic acquisitions in the flow control market. A larger acquisition may require additional borrowings and or the issuance of our common stock.

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The following table summarizes our significant contractual obligations and commercial commitments at December 31, 2007 that affect our liquidity:

(In thousands)	Total	Payments due by Period			Thereafter
		Less Than 1 Year	1 3 Years	4 5 Years	
<b>Contractual Cash Obligations:</b>					
Current portion of long-term debt	\$ 201	\$ 201	\$	\$	\$
<b>Total short-term borrowings</b>	<b>201</b>	<b>201</b>			
Long-term debt, less current portion	21,901		16,686		5,215
Interest payments on debt	5,395	1,204	2,339	433	1,409
Operating leases	11,300	5,539	4,778	883	100
<b>Total contractual cash obligations</b>	<b>\$ 38,797</b>	<b>\$ 6,944</b>	<b>\$ 23,803</b>	<b>\$ 1,326</b>	<b>\$ 6,724</b>
<b>Other Commercial Commitments:</b>					
U.S. standby letters of credit	\$ 3,212	\$ 3,200	\$ 12	\$	\$
International standby letters of credit	38,585	18,614	9,330	10,587	54
Commercial contract commitments	87,255	83,731	1,118	952	1,454
<b>Total commercial commitments</b>	<b>\$ 129,052</b>	<b>\$ 105,545</b>	<b>\$ 10,460</b>	<b>\$ 11,539</b>	<b>\$ 1,508</b>

The most significant of our contractual cash obligations at December 31, 2007 related to our revolving credit facility totaling \$16.2 million. The interest on the revolving credit facility, as well as interest on certain of our other debt balances, with scheduled repayment dates between 2007 and 2019 and interest rates ranging between 4.02% and 8.98%, have been included in the Interest Payments on Debt line within the Contractual Cash Obligations schedule.

The most significant of our commercial contract commitments includes approximately \$83.2 million of commitments related to open purchase orders. All of these open purchase orders are not expected to extend beyond 2008. As of December 31, 2007, we did not have any open purchase order commitments that extend beyond 2009.

We did not contribute to our pension plan trust during the fiscal years ended December 31, 2006 and 2007. We do not expect to make plan contributions for 2008. The estimates for plan funding for future periods may change as a result of the uncertainties concerning the return on plan assets, the number of plan participants, and other changes in actuarial assumptions.

**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.



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### **New Accounting Standards**

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ( SFAS 158 ). Among other items, SFAS 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. SFAS 158 is effective for fiscal years ending after December 15, 2006. We adopted the recognition provisions of SFAS 158 as of December 31, 2006 and the measurement provision as of January 1, 2007.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This Statement is effective for the Company's fiscal year ended December 31, 2008 and interim periods within 2008. We do not expect this Statement to have a material impact on its financial condition or results of operations.

In December 2007, the FASB issued Statement No. 141R, *Business Combinations*, which establishes principles for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired and liabilities assumed in a business combination, recognizes and measures the goodwill acquired in a business combination, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. We are required to apply this Statement prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. This Statement is effective as of the beginning of the Company's fiscal year ended December 31, 2008. We do not expect this Statement to have a material impact on its financial condition or results of operations.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

#### **Market Risk**

The oil and gas markets historically have been subject to cyclicity depending upon supply and demand for crude oil, its derivatives and natural gas. When oil or gas prices decrease expenditures on maintenance and repair decline rapidly and outlays for exploration and in-field drilling projects decrease and, accordingly, demand for valve products is reduced. However, when oil and gas prices rise, maintenance and repair activity and spending for facilities projects normally increase and we benefit from increased demand for valve products. However, oil or gas price increases may be considered temporary in nature or not driven by customer demand and, therefore, may result in longer lead times for increases in petrochemical sales orders. As a result, the timing and magnitude of changes in market demand for oil and gas valve products are difficult to predict. Similarly, although not to the same extent as the oil and gas markets, the general industrial, chemical processing, aerospace, military and maritime

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markets have historically experienced cyclical fluctuations in demand that also could have a material adverse effect on our business, financial condition or results of operations.

**Interest Rate Sensitivity Risk**

As of December 31, 2007, our primary interest rate risk is related to borrowings under our revolving credit facility and our industrial revenue bond. The interest rates for our revolving credit facility and industrial revenue bond fluctuate with changes in short-term borrowing rates. We had \$16.2 million borrowed under our revolving credit facility as of December 31, 2007. Based upon expected levels of borrowings under our revolving credit facility in 2008 and our current balance for our industrial revenue bond, an increase in variable interest rates of 100 basis points would have an effect on our annual results of operations and cash flows of approximately \$0.2 million.

**Foreign Currency Exchange Risk**

We use forward contracts to manage the currency risk related to certain business transactions denominated in foreign currencies. Related gains and losses are recognized when hedged transactions affect earnings, which are generally in the same period as the underlying foreign currency denominated transactions. To the extent these transactions are completed, the contracts do not subject us to significant risk from exchange rate movements because they offset gains and losses on the related foreign currency denominated transactions. As of December 31, 2007, we had forward contracts to sell currencies with a face value of approximately \$2.0 million. The net unrealized losses attributable to foreign currency forward contracts at December 31, 2007 were less than \$0.1 million. The counterparties to these contracts are major financial institutions. Our risk of loss in the event of non-performance by the counterparties is not significant.

We do not use derivative financial instruments for trading purposes. Risk management strategies are reviewed and approved by senior management before implementation.

**Item 8. Financial Statements and Supplementary Data**

**CIRCOR INTERNATIONAL, INC**

**Index to Consolidated Financial Statements**

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Reports of Independent Registered Public Accounting Firms	55
Consolidated Balance Sheets as of December 31, 2007 and 2006	59
Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005	60
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005	61
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005	62
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### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

As discussed more fully in the Company's definitive Proxy Statement and form 8-K filed with the Securities and Exchange Commission on March 28, 2007 and March 2, 2007, respectively, KPMG LLP was dismissed on February 26, 2007 and Grant Thornton LLP was appointed as the Company's independent registered public accounting firm by our audit committee. There were no disagreements with accountants on accounting or financial disclosure during 2007 or 2006.

### **Item 9A. Controls and Procedures**

#### Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have 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 annual report on Form 10-K. 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 effective to give reasonable assurance that information we disclose in reports that we file or submit under the Securities and 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 Securities and Exchange Commission's rules and forms.

#### Changes in Internal Control Over Financial Reporting

There were no significant changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2007 that could materially affect, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

Our internal control over financial reporting as of December 31, 2007 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which is included herein.



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**Item 9B. Other Information**

None

**Part III**

**Item 10. Directors and Executive Officers of the Registrant**

The information appearing under the sections Information Regarding Directors and Information Regarding Executive Officers in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on April 30, 2008 is incorporated herein by reference.

**Item 11. Executive Compensation**

The information appearing under the section Executive Compensation in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 30, 2008 is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information appearing under the section Security Ownership of CIRCOR Common Stock by Certain Beneficial Owners, Directors and Executive Officers of the Company in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 30, 2008 is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions**

The information appearing under the section Certain Relationships and Related Transactions in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 30, 2008 is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

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This information appearing under the section **Principal Accountant Fees and Services** in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 30, 2008 is incorporated herein by reference.

### Part IV

#### **Item 15. Exhibits, Financial Statement Schedules**

##### **(a)(1) Financial Statements**

The financial statements filed as part of the report are listed in Part II, Item 8 of this report on the Index to Consolidated Financial Statements.

**Table of Contents****(a)(2) Financial Statement Schedules**

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2007, 2006 and 2005	<b>Page</b> 105
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All schedules for which provision is made in the applicable accounting regulations of the Security and Exchange Commission are not required under the related instructions or are not material, and therefore have been omitted.

**(a)(3) Exhibits****Exhibit**

<b>No.</b>	<b>Description and Location</b>
2	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession:
2.1	Distribution Agreement 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 ( Form 10 ), filed with the Securities and Exchange Commission on October 6, 1999 ( Amendment No. 2 to the Form 10 ).
3	Articles of Incorporation and By-Laws:
3.1	The Amended and Restated Certificate of Incorporation of CIRCOR International, Inc. is incorporated herein by reference to Exhibit 3.1 to the Form 10.
3.2	The Amended and Restated By-Laws of CIRCOR International, Inc. are incorporated herein by reference to Exhibit 3.2 to the Form 10.
3.3	Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of CIRCOR International, Inc. classifying and designating the Series A Junior Participating Cumulative Preferred Stock is incorporated herein by reference to Exhibit 3.1 to CIRCOR International, Inc.'s Registration Statement on Form 8-A, File No. 001-14962, filed with the Securities and Exchange Commission on October 21, 1999 ( Form 8-A ).
4	Instruments Defining the Rights of Security Holders, Including Debentures:
4.1	Shareholder Rights Agreement, dated as of September 16, 1999, between CIRCOR International, Inc. and BankBoston, N.A., as Rights Agent is incorporated herein by reference to Exhibit 4.1 to the Form 8-A.
4.2	Agreement of Substitution and Amendment of Shareholder Rights Agent Agreement dated as of November 1, 2002 between CIRCOR International, Inc. and American Stock Transfer and Trust Company is incorporated herein by reference to exhibit 4.2 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2003.
4.3	Amendment to Shareholder Rights Agent Agreement dated as of November 2, 2006 between CIRCOR International, Inc. and American Stock Transfer and Trust Company is incorporated herein by reference to exhibit 4.3 on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on November 2, 2006.

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**Exhibit**

<b>No.</b>	<b>Description and Location</b>
9	Voting Trust Agreements:
9.1	The Amended and Restated George B. Horne Voting Trust Agreement-1997 dated as of September 14, 1999 is incorporated herein by reference to Exhibit 9.1 to Amendment No. 1 to the Form 10-12B/A, filed with the Securities and Exchange Commission on September 22, 1999 ( Amendment No. 1 to the Form 10 ).
10	Material Contracts:
10.1	CIRCOR International, Inc. 1999 Stock Option and Incentive Plan is incorporated herein by reference to Exhibit 10.1 on Amendment No. 1 to the Form 10.
10.2	Form of Incentive Stock Option Agreement under the 1999 Stock Option and Incentive Plan is incorporated herein by reference to Exhibit 10.2 to Amendment No. 1 to the Form 10.
10.3	Form of Non-Qualified Stock Option Agreement for Employees under the 1999 Stock Option and Incentive Plan (Five Year Graduated Vesting Schedule) is incorporated herein by reference to Exhibit 10.3 to Amendment No. 1 to the Form 10.
10.4	Form of Non-Qualified Stock Option Agreement for Employees under the 1999 Stock Option and Incentive Plan (Performance Accelerated Vesting Schedule) is incorporated herein by reference to Exhibit 10.4 on Amendment No. 1 to the Form 10.
10.5	Form of Non-Qualified Stock Option Agreement for Independent Directors under the 1999 Stock Option and Incentive Plan is incorporated herein by reference to Exhibit 10.5 on Amendment No. 1 to the Form 10.
10.6	CIRCOR International, Inc. Management Stock Purchase Plan is incorporated herein by reference to Exhibit 10.6 on Amendment No. 1 to the Form 10.
10.7	Form of CIRCOR International, Inc. Supplemental Employee Retirement Plan is incorporated herein by reference to Exhibit 10.7 on Amendment No. 1 to the Form 10.
10.8	Letter of Credit, Reimbursement and Guaranty Agreement dated as of March 3, 2004 among Leslie Controls Inc., as Borrower, CIRCOR International, Inc., as Guarantor, and Sun Trust National Bank as Letter of Credit Provider thereto is incorporated herein by reference to Exhibit 10.31 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 15, 2004.
10.9	Loan Agreement between Hillsborough County Industrial Development Authority and Leslie Controls, Inc. dated July 1, 1994 is incorporated herein by reference to Exhibit 10.15 of the Watts Industries, Inc. Annual Report on Form 10-K, File No. 000-14787, filed with the Securities and Exchange Commission on September 26, 1994.
10.10	Trust Indenture from Hillsborough County Industrial Development Authority to The First National Bank of Boston, as Trustee, dated July 1, 1994 is incorporated herein by reference to Exhibit 10.17 of the Watts Industries, Inc. Annual Report on Form 10-K, File No. 000-14787, filed with the Securities and Exchange Commission on September 26, 1994.
10.11	Form of Indemnification Agreement between CIRCOR International, Inc. and its Officers and Directors dated November 6, 2002 is incorporated herein by reference to Exhibit 10.12 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2003.

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**Exhibit**

<b>No.</b>	<b>Description and Location</b>
10.12	Amended and Restated Retirement Agreement dated September 27, 2007 and effective August 22, 2007 by and between CIRCOR, Inc. and David A. Bloss, Sr. is incorporated herein by reference to Exhibit 10.12 filed with the Securities and Exchange Commission on November 6, 2007 on Form 10-Q, File No. 001-14962.
10.13	Credit Agreement, dated as of December 20, 2005, by and among CIRCOR International, Inc., as Borrower, the Other Credit Parties party hereto, the Lenders party hereto, as Lenders, Keybank National Association, as an LC issuer, Swing Line lender, and as the Lead Arranger, Sole Bookrunner and administrative agent, and Bank of America NA as Syndication Agent is incorporated herein by reference to Exhibit 10.13 on Form 10-K filed with the Securities and Exchange Commission on March 1, 2006.
10.14	First Amendment to credit agreement by and among CIRCOR International, Inc., as Borrower, the Other Credit Parties party hereto, the Lenders party hereto, as Lenders, Keybank National Association, as an LC issuer, Swing Line lender, and as the Lead Arranger, Sole Bookrunner and administrative agent, and Bank of America NA as Syndication Agent dated October 12, 2006 Form 10-Q, File No. 001-14962, filed with the Securities and Exchange Commission on November 2, 2006.
10.15	Sharing agreements regarding the rights of debt holders relative to one another in the event of insolvency is incorporated herein by reference to Exhibit 10.21 on Form 10 Q/A filed with the Securities and Exchange Commission on August 14, 2000.
10.16	Executive Change of Control Agreement between CIRCOR International, Inc. and Andrew William Higgins dated February 15, 2005 is incorporated herein by reference to Exhibit 10.5 to CIRCOR International, Inc. s Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on February 22, 2005.
10.17	Executive Change of Control Agreement between CIRCOR, Inc. and Kenneth W. Smith dated August 8, 2000 is incorporated herein by reference to Exhibit 10.24 on Form 10-Q, File No. 001-14962, filed with the Securities and Exchange Commission on November 14, 2000.
10.18	Executive Change of Control Agreement between CIRCOR, Inc. and John F. Kober III dated September 16, 2005 is incorporated herein by reference to Exhibit 10.3 on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on September 20, 2005.
10.19	Executive Change of Control Agreement between CIRCOR, Inc. and Alan J. Glass dated August 8, 2000 is incorporated herein by reference to Exhibit 10.26 on Form 10-K405, File No. 001-14962, filed with the Securities and Exchange Commission on March 9, 2001.
10.20	Executive Change of Control Agreement between CIRCOR, Inc. and Paul M. Coppinger dated August 1, 2001 is incorporated herein by reference to Exhibit 10.28 on Form 10-K405, File No. 001-14962, filed with the Securities and Exchange Commission on March 9, 2001.
10.21	Executive Change of Control Agreement between John W. Cope and CIRCOR, Inc. dated August 5, 2005 is incorporated herein by reference to Exhibit 10.8 on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on August 9 2005.
10.22*	Amended and Restated Retirement Agreement dated December 18, 2007 by and between CIRCOR International, Inc. and Kenneth W. Smith.

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**Exhibit**

<b>No.</b>	<b>Description and Location</b>
10.23	Executive Change of Control Agreement between CIRCOR International, Inc. and Susan M. McCuaig dated May 5, 2005 is incorporated herein by reference to Exhibit 10.41 to CIRCOR International, Inc. s Form 10-Q, File No. 001-14962, filed with the Securities and Exchange Commission on May 6, 2005.
10.24	First Amendment to Executive Change of Control Agreement between Alan J. Glass and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.30 on Form 10-K405, File No. 001-14962, filed with the Securities and Exchange Commission on March 15, 2002.
10.25	First Amendment to Executive Change of Control Agreement between Paul M. Coppinger and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.31 on Form 10-K405, File No. 001-14962, filed with the Securities and Exchange Commission on March 15, 2002.
10.26	Executive Change of Control Agreement between Christopher R. Celtruda and CIRCOR, Inc. dated June 15, 2006 is incorporated herein by reference to Exhibit 10.2 on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on June 19, 2006.
10.27	Executive Change of Control Agreement between Wayne F. Robbins and CIRCOR, Inc. dated March 21, 2006 is incorporated herein by reference to Exhibit 10.2 on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 21, 2006.
10.28	Executive Change of Control Agreement between Richard A. Broughton and CIRCOR, Inc. dated December 18, 2006 is incorporated herein by reference to Exhibit 10.2 on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on December 19, 2006.
10.29	First Amendment to CIRCOR International Inc. Amended and Restated 1999 Stock Option and Incentive Plan dated as of December 1, 2005 is incorporated herein by reference to Exhibit 10.1 on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on December 7, 2005.
10.30	Form of Restricted Stock Unit Agreement for Employees and Directors, incorporated herein by reference to Exhibit 10.3 to CIRCOR International Inc. s Form 8-K File No. 001-14962 filed with the Securities and Exchange Commission on February 22, 2005.
21*	Schedule of Subsidiaries of CIRCOR International, Inc.
23.1*	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
23.2*	Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm
23.3*	Consent of Hamilton, Rabinovitz & Associates, Inc.
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.
32.1*	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.

\* Filed with this report.



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## Signatures

Pursuant to the requirements of Section 13 or 15(d) 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.**

By: */s/* **A. WILLIAM HIGGINS**  
A. William Higgins

President and Chief Executive Officer

Date: March 10, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<i>/s/</i> A. WILLIAM HIGGINS A. William Higgins	President, Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2008
<i>/s/</i> <b>FREDERIC M. BURDITT</b> Frederic M. Burditt	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 10, 2008
<i>/s/</i> <b>JOHN F. KOBER</b> John F. Kober	Vice President, Corporate Controller (Principal Accounting Officer)	March 10, 2008
<i>/s/</i> <b>DAVID A. BLOSS, SR.</b> David A. Bloss, Sr.	Chairman	March 10, 2008
<i>/s/</i> <b>JEROME D. BRADY</b> Jerome D. Brady	Director	March 10, 2008
<i>/s/</i> <b>DEWAIN K. CROSS</b> Dewain K. Cross	Director	March 10, 2008
<i>/s/</i> <b>DAVID F. DIETZ</b> David F. Dietz	Director	March 10, 2008
<i>/s/</i> <b>DOUGLAS M. HAYES</b>	Director	March 10, 2008

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Douglas M. Hayes

/s/ **THOMAS E. NAUGLE**

March 10, 2008

Thomas E. Naugle

Director

/s/ **C. WILLIAM ZADEL**

March 10, 2008

C. William Zadel

Director

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**Report of Independent Registered Public Accounting Firm on Financial Statements**

To the Board of Directors and Shareholders of CIRCOR International, Inc.:

We have audited the accompanying consolidated balance sheet of CIRCOR International, Inc. and subsidiaries as of December 31, 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended December 31, 2007. Our audit of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CIRCOR International, Inc. and subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally acceptable in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 8 to the consolidated financial statements, on January 1, 2007, the Company adopted the provisions of Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109 issued by the Financial Accounting Standards Board. As discussed in Note 13 to the consolidated financial statements, as of January 1, 2007, the Company adopted the measurement provision of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of CIRCOR International, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2008 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Boston, Massachusetts

February 22, 2008



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Registered Public Accounting Firm's Report on Internal Control Over Financial Reporting

To The Board of Directors and Shareholders of

CIRCOR International, Inc.:

We have audited CIRCOR International, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CIRCOR International, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on CIRCOR International, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CIRCOR International, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2007 consolidated financial statements of CIRCOR International, Inc. and subsidiaries and our report dated February 22, 2008 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Boston, Massachusetts

February 22, 2008

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

CIRCOR International, Inc.:

We have audited the accompanying consolidated balance sheet of CIRCOR International, Inc. as of December 31, 2006, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the two-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also audited the accompanying financial statement schedule of valuation and qualifying accounts. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CIRCOR International, Inc. as of December 31, 2006, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment on January 1, 2006. As discussed in note 13 to the consolidated financial statements, during the fourth quarter of 2006, the Company adopted Statement of Financial Accounting Standards, No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

/s/ KPMG LLP

Boston, Massachusetts

February 22, 2007

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## CIRCOR INTERNATIONAL, INC.

## Consolidated Balance Sheets

(In thousands, except share data)

	December 31,	
	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 34,662	\$ 28,652
Investments	8,861	86
Trade accounts receivable, less allowance for doubtful accounts of \$2,151 and \$2,523 respectively	125,663	108,689
Inventories	171,661	150,160
Prepaid expenses and other current assets	3,990	2,926
Deferred income taxes	8,220	7,305
Insurance receivables	6,885	
Assets held for sale	312	3,132
<b>Total Current Assets</b>	<b>360,254</b>	<b>300,950</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>82,465</b>	<b>79,039</b>
<b>OTHER ASSETS:</b>		
Goodwill	169,110	163,720
Intangibles, net	47,373	49,226
Non-current insurance receivable	5,014	
Other assets	12,253	12,740
<b>TOTAL ASSETS</b>	<b>\$ 676,469</b>	<b>\$ 605,675</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 82,038	\$ 71,788
Accrued expenses and other current liabilities	72,481	53,333
Accrued compensation and benefits	21,498	15,325
Asbestos liability	9,697	1,026
Income taxes payable	7,900	6,027
Notes payable and current portion of long-term debt	201	415
<b>Total Current Liabilities</b>	<b>193,815</b>	<b>147,914</b>
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<b>21,901</b>	<b>64,411</b>
<b>DEFERRED INCOME TAXES</b>	<b>19,106</b>	<b>21,674</b>
<b>LONG-TERM ASBESTOS LIABILITY</b>	<b>7,062</b>	
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>14,201</b>	<b>14,375</b>
<b>COMMITMENTS AND CONTINGENCIES (Notes 14, 15, 16)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value; 29,000,000 shares authorized; 16,650,407 and 16,181,070 shares issued and outstanding at December 31, 2007 and 2006, respectively	167	162
Additional paid-in capital	240,000	224,508
Retained earnings	144,644	109,251
Accumulated other comprehensive income	35,573	23,380



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Total Shareholders Equity	420,384	357,301
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 676,469</b>	<b>\$ 605,675</b>

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

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## CIRCOR INTERNATIONAL, INC.

## Consolidated Statements of Operations

(In thousands, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Net revenues	\$ 665,740	\$ 591,711	\$ 450,531
Cost of revenues	470,373	418,803	317,856
<b>GROSS PROFIT</b>	<b>195,367</b>	<b>172,908</b>	<b>132,675</b>
Selling, general and administrative expenses	136,086	124,720	98,040
Special charges	2,514	678	1,630
<b>OPERATING INCOME</b>	<b>56,767</b>	<b>47,510</b>	<b>33,005</b>
Other (income) expense:			
Interest income	(393)	(429)	(579)
Interest expense	3,394	5,546	3,389
Other, net	(1,257)	134	144
<b>TOTAL OTHER EXPENSE</b>	<b>1,744</b>	<b>5,251</b>	<b>2,954</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>55,023</b>	<b>42,259</b>	<b>30,051</b>
Provision for income taxes	17,112	12,931	9,668
<b>NET INCOME</b>	<b>\$ 37,911</b>	<b>\$ 29,328</b>	<b>\$ 20,383</b>
Earnings per common share:			
Basic	\$ 2.31	\$ 1.84	\$ 1.30
Diluted	\$ 2.27	\$ 1.80	\$ 1.27
Weighted average common shares outstanding:			
Basic	16,442	15,976	15,690
Diluted	16,730	16,291	16,019
Dividends paid per common share	\$ 0.15	\$ 0.15	\$ 0.15

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

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## CIRCOR INTERNATIONAL, INC.

## Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2007	2006	2005
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 37,911	\$ 29,328	\$ 20,383
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	10,870	11,206	9,825
Amortization	2,579	2,394	588
Compensation expense of stock-based plans	5,888	3,252	1,020
Excess tax benefits of share compensation	(3,623)		
Deferred income taxes	(3,574)	(4,708)	(35)
Loss on sale/disposal of property, plant and equipment	102	91	128
Gain on the sale of assets held for sale	(1,229)		(110)
Gain on the sale of affiliate	(1,605)	(11)	
Equity in undistributed earnings of affiliate	452		
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Trade accounts receivable	(12,532)	(20,857)	(10,090)
Inventories	(15,672)	(29,804)	1,638
Prepaid expenses and other assets	(13,187)	4,966	160
Accounts payable, accrued expenses and other liabilities	50,536	34,001	21,819
Net cash provided by operating activities	56,916	29,858	45,326
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	(11,983)	(9,933)	(15,021)
Proceeds from the disposal of property, plant and equipment	939	371	99
Proceeds from the sale of assets held for sale	4,072	100	1,467
Proceeds from the sale of investments		12,211	6,699
Purchase of investments	(8,760)	(12,194)	(2,535)
Business acquisitions, net of cash acquired	(2,704)	(61,103)	(50,779)
Purchase price escrow release payments			(829)
Proceeds from sale of affiliate, net of cash sold	1,605	2,309	
Net cash used in investing activities	(16,831)	(68,239)	(60,899)
<b>FINANCING ACTIVITIES</b>			
Proceeds from long-term borrowings	87,641	100,561	10,669
Payments of long-term debt	(130,709)	(70,204)	(22,386)
Dividends paid	(2,464)	(2,395)	(2,358)
Proceeds from the exercise of stock options	6,380	3,627	3,771
Excess tax benefits of share based compensation	3,623	2,559	
Net cash provided by (used in) financing activities	(35,529)	34,148	(10,304)
Effect of exchange rate changes on cash and cash equivalents	1,454	1,773	(1,664)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,010</b>	<b>(2,460)</b>	<b>(27,541)</b>
Cash and cash equivalents at beginning of year	28,652	31,112	58,653

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CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 34,662	\$ 28,652	\$ 31,112
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Supplemental Cash Flow Information:

Cash paid during the year for:

Income taxes	\$ 15,718	\$ 12,135	\$ 5,422
Interest	\$ 3,799	\$ 5,226	\$ 3,321

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

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## CIRCOR INTERNATIONAL, INC.

## Consolidated Statements of Shareholders Equity

(In thousands)

	Common Stock			Retained Earnings	Accumulated	Total Shareholders Equity
	Shares	Amount	Additional Paid-in Capital		Other Comprehensive Income	
BALANCE AT DECEMBER 31, 2004	15,430	\$ 154	\$ 208,392	\$ 64,293	\$ 20,596	\$ 293,435
Net income				20,383		20,383
Cumulative translation adjustment					(7,470)	(7,470)
Minimum pension liability (net of tax of \$94)					(153)	(153)
Comprehensive income						12,760
Common stock dividends paid				(2,358)		(2,358)
Stock options exercised	358	4	3,768			3,772
Income tax benefit from stock options			1,947			1,947
Conversion of restricted stock units	36		224			224
Equity based compensation			943			943
BALANCE AT DECEMBER 31, 2005	15,824	158	215,274	82,318	12,973	310,723
Net income				29,328		29,328
Cumulative translation adjustment					12,338	12,338
Minimum pension liability (net of tax of \$774)					(1,264)	(1,264)
Comprehensive income						40,402
Pension liability adjustment to apply SFAS No. 158 (Note 13) (net of tax of \$409)					(667)	(667)
Common stock dividends paid				(2,395)		(2,395)
Stock options exercised	298	3	3,624			3,627
Income tax benefit from share based compensation			2,559			2,559
Conversion of restricted stock units	59	1	(92)			(91)
Share based compensation			3,143			3,143
BALANCE AT DECEMBER 31, 2006	16,181	162	224,508	109,251	23,380	357,301
Net income				37,911		37,911
Cumulative translation adjustment					11,287	11,287
Pension liability adjustment (net of tax of \$27)					46	46
Pension liability (net of tax of \$296)					(486)	(486)
Comprehensive income						48,758
Pension change in accounting principle (Note 13) (net of tax of \$825)				(54)	1,346	1,292
Common stock dividends paid				(2,464)		(2,464)

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Stock options exercised	409	4	6,376	6,380
Income tax benefit from share based compensation			3,623	3,623
Conversion of restricted stock units	60	1	(303)	(302)
Share based compensation			5,796	5,796
 BALANCE AT DECEMBER 31, 2007	 16,650	 \$ 167	 \$ 240,000	 \$ 144,644
				 \$ 35,573
				 \$ 420,384

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

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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

**(1) Description of Business**

CIRCOR International, Inc. ( CIRCOR or the Company or we ) designs, manufactures and distributes valves and related products and services for use in a wide range of applications to optimize the efficiency or ensure the safety of fluid-control systems. The valves and related fluid-control products we manufacture are used in processing industries; oil and gas exploration, production, distribution and refining; pipeline construction and maintenance; HVAC and power; aerospace, military and commercial aircraft; and maritime manufacturing and maintenance. We have used both internal product development and strategic acquisitions to assemble a complete array of fluid-control products and technologies that enables us to address our customers' unique fluid-control application needs. We have two major product groups: Instrumentation and Thermal Fluid Controls Products, and Energy Products.

The Instrumentation and Thermal Fluid Controls Products Group designs, manufactures and sells valves and controls for diverse end-uses including instrumentation, aerospace, cryogenic and steam applications. Selected products include precision valves, compression tube and pipefitting, control valves, relief valves, couplers, regulators and strainers. The Instrumentation and Thermal Fluid Controls Products Group includes the following subsidiaries and major business units: Aerodyne Controls; Circle Seal Controls, Inc.; CPC-Cryolab; Hoke, Inc.; Leslie Controls, Inc.; Nicholson Steam Trap; Rockwood Swendeman; Regeltechnik Kornwestheim GmbH; Industria, S.A.; Spence Engineering Company, Inc.; Spence Strainers; Hale Hamilton, Ltd; Texas Sampling, Inc.; DQS International and subsidiary; Loud Engineering Co.; and U.S. Para Plate Corporation.

The Energy Products Group designs, manufactures and sells flanged-end and threaded-end floating and trunnion ball valves, needle valves, check valves, butterfly valves and large forged steel ball valves and gate valves for use in oil, gas and chemical processing and industrial applications. The Energy Products Group includes the following subsidiaries and major divisions: Circor Energy Products Inc., KF Canada, Pibiviesse Srl.; SKVC; and Sagebrush Pipeline.

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

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of CIRCOR and its wholly and majority owned subsidiaries. The results of companies acquired during the year are included in the consolidated financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Some of the more significant estimates relate to purchase accounting, depreciation, stock based compensation, amortization and impairment of



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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

long-lived assets, pension obligations, income taxes, asset valuations, environmental liability, and product liability. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from those estimates.

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 Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less.

Investments

Investments primarily consist of guaranteed investment contracts, all of which are carried at cost which approximates their fair value.

Inventories

Inventories are valued at the lower of cost or market. Cost is generally determined on the first-in, first-out ( FIFO ) basis. Where appropriate, standard cost systems are utilized for purposes of determining cost; the standards are adjusted as necessary to ensure they approximate actual costs. Lower of cost or market value of inventory is determined at the operating unit level and evaluated periodically. Estimates for obsolescence or slow moving inventory are maintained based on current economic conditions, historical sales quantities and patterns and, in some cases, the specific risk of loss on specifically identified inventories. Such inventories are recorded at estimated realizable value net of the costs of disposal.

Property, Plant and Equipment

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Property, plant and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years for buildings and improvements and 3 to 10 years for manufacturing machinery and equipment and office equipment, and 3 to 5 years for computer equipment and software and motor vehicles. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Repairs and maintenance costs are expensed as incurred.

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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

Goodwill and Intangible Assets

Goodwill and intangible assets are recorded at cost; intangible assets with definitive lives are amortized over their useful lives. We perform an impairment test on an annual basis as of the end of our fiscal October month end or more frequently if circumstances warrant for goodwill and intangible assets with indefinite lives. The most recent impairment test was conducted in the fourth quarter of 2007 and resulted in no impairment.

Impairment of Other Long-Lived Assets

Other long-lived assets include property, plant, and equipment and intangibles with definitive lives. We perform impairment analyses of our other long-lived assets whenever events and circumstances indicate that they may be impaired. When the undiscounted future cash flows are expected to be less than the carrying value of the assets being reviewed for impairment, the assets are written to fair market value based upon third party appraisals. As a result of our analysis of Leslie's asbestos matters, we concluded that the diminished future cash flow for Leslie Controls was an indicator of impairment that triggered an impairment analysis on the long-lived assets of Leslie Controls in accordance with SFAS No. 144. The fair value (based on a third party appraisal) of Leslie's long lived assets at December 31, 2007 was at least equal to net book value; accordingly, no write-down was necessary.

Advertising Costs

Our accounting policy is to expense advertising costs, principally in selling, general and administrative expenses, when incurred. Our advertising costs for the years ended December 31, 2007, 2006, and 2005 were \$1.9 million, \$1.9 million, and \$1.6 million, respectively.

Research and Development

Research and development expenditures are expensed when incurred and are included in selling, general and administrative expenses in the Consolidated Statements of Operations. Our research and development expenditures for the years ended December 31, 2007, 2006 and 2005, were \$3.2 million, \$3.2 million and \$1.9 million, respectively.

Income Taxes

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Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if we anticipate that it is more likely than not that we may not realize some or all of a deferred tax asset.

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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

Except for the Company's Dutch subsidiary, undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been recorded thereon. No additional provision is required for the undistributed earnings of the Dutch subsidiary.

Environmental Compliance and Remediation

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to existing conditions caused by past operations, which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and, or, remedial efforts are probable and the costs can be reasonably estimated. Estimated costs are based upon current laws and regulations, existing technology and the most probable method of remediation. The costs are not discounted and exclude the effects of inflation. If the cost estimates result in a range of equally probable amounts, the lower end of the range is accrued.

Asbestos Related Contingencies and Insurance Recoveries

CIRCOR's subsidiary, Leslie Controls, is a defendant in personal injury actions related to asbestos containing products. We recognize a liability for any asbestos related contingency that is probable of occurrence and reasonably estimable. We do not accrue a liability for future Leslie Controls asbestos related claims due to the inherent uncertainties in making projections regarding claims filing rates and disease manifestation. Regarding Leslie Control's asbestos related claims, we accrue legal defense costs when incurred and accrue a liability for open claims based on our average historical claim resolution cost. In the fourth quarter of 2007, Leslie Controls accrued a liability for the estimated cost of these open asbestos claims. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential ranges of probable losses and recognize a liability, if any, for these contingencies based on an analysis of each individual issue with the assistance of outside legal counsel and, if applicable, other consultants.

In connection with the recognition of liabilities for asbestos related matters, we record asbestos related insurance recoveries that are probable and estimable. In assessing the probability of insurance recovery, we make judgments concerning insurance coverage that we believe are reasonable and consistent with our historical experience with our insurers, our knowledge of any pertinent solvency issues surrounding insurers, various judicial determinations relevant to our insurance programs and our consideration of the impacts of any settlements with our insurers.

Foreign Currency Translation

Our international subsidiaries operate and report their financial results using local functional currencies. Accordingly, all assets and liabilities of these subsidiaries are translated into United States dollars using exchange rates in effect at the end of the relevant periods, and revenues and costs are translated using weighted average exchange rates for the relevant periods. The resulting translation adjustments are



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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

presented as a separate component of other comprehensive income. We do not provide for U.S. income taxes on foreign currency translation adjustments since we do not provide for such taxes on undistributed earnings of foreign subsidiaries. Our net foreign exchange gains and (losses) recorded for the years ended December 31, 2007, 2006 and 2005 were not significant.

## Earnings Per Common Share

Basic earnings per common share are calculated by dividing net income by the number of weighted average common shares outstanding. Diluted earnings per common share is calculated by dividing net income by the weighted average common shares outstanding and assumes the conversion of all dilutive securities.

Earnings per common share and the weighted average number of shares used to compute net earnings per common share, basic and assuming full dilution, are reconciled below (In thousands, except per share data):

	Year Ended December 31,								
	2007			2006			2005		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS	\$ 37,911	16,442	\$ 2.31	\$ 29,328	15,976	\$ 1.84	\$ 20,383	15,690	\$ 1.30
Dilutive securities, principally Common stock options		288	0.04		315	0.04		329	0.03
Diluted EPS	\$ 37,911	16,730	\$ 2.27	\$ 29,328	16,291	\$ 1.80	\$ 20,383	16,019	\$ 1.27

There were no anti-dilutive stock options or RSUs for the year ended December 31, 2007. In 2005 and 2006, certain stock options to purchase common shares were not included in the table above because they were anti-dilutive. The options excluded from the table for the years ended December 31, 2006 and 2005 were: 133,860 options ranging from \$26.29 to \$23.92, and 21,100 options ranging from \$26.29 to \$27.81, respectively.

## Share Based Compensation

Prior to January 1, 2006 we accounted for our stock options using the intrinsic value method of accounting provided under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, ( APB 25 ) and related interpretations, as permitted by FASB Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Share-based Compensation, ( SFAS 123 ). Applying the intrinsic value method of accounting for our stock options, we did not record share-based compensation in our net earnings because the exercise price of our options equaled the market price of the underlying stock on the date of the grant. Accordingly, share-based compensation for our options was included as a proforma disclosure in the financial statement footnotes and continues to be provided as proforma disclosure in the financial

statement footnotes for periods prior to January 1, 2006.



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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

Effective January 1, 2006 we adopted the fair value recognition provisions of SFAS 123(R), Share-Based Payment, ( SFAS 123(R) ), using the modified-prospective transition method. Under this transition method, compensation cost recognized as selling, general and administrative expense in 2006 includes compensation costs for all share-based payments granted through January 1, 2006, but for which the requisite service period had not been completed as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Compensation costs for any share-based payments granted subsequent to January 1, 2006 are based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for periods prior to January 1, 2006 have not been restated. See Note (11) to the consolidated financial statements for further information on share based compensation.

Derivative Financial Instruments

We use foreign currency forward exchange contracts to manage currency exchange exposures in certain foreign currency denominated transactions. Counterparties to these contracts are major financial institutions. Our risk of loss in the event of non-performance by the counterparties is not significant. Gains and losses on contracts designated as hedges are recognized when hedged transactions affect earnings, which is generally in the same time period as the underlying foreign currency denominated transactions. Gains and losses on contracts that do not qualify for hedge accounting treatment are recognized as incurred as a component of other non-operating income or expense. We did not have any transactions that qualify for hedge accounting treatment in the years ended December 31, 2007, 2006 and 2005.

New Accounting Standards

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ( SFAS 158 ). Among other items, SFAS 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. SFAS 158 is effective for fiscal years ending after December 15, 2006. We adopted the recognition provisions of SFAS 158 as of December 31, 2006 and the measurement provision as of January 1, 2007.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This Statement is effective for the Company's fiscal year ended December 31, 2008 and interim periods within 2008. We do not expect this Statement to have a material impact on our financial condition or results of operations.

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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

In December 2007, the FASB issued Statement No. 141R, *Business Combinations*, which establishes principles for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired and liabilities assumed in a business combination, recognizes and measures the goodwill acquired in a business combination, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a business combination. We are required to apply this Statement prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. This Statement is effective as of the beginning of the Company's fiscal year ending December 31, 2008. We do not expect this Statement to have a material impact on our financial condition or results of operations.

Reclassifications

Certain prior period financial statement amounts have been reclassified to conform to currently reported presentations.

**(3) Business Acquisitions and Divestitures**

Our growth strategy includes strategic acquisitions that complement and extend our current offering of engineered flow control products. Our acquisitions have well established brand recognition and are well known within the industry. Excluding our 2006 acquisitions, we have historically financed our acquisitions from available cash balances and we accounted for these transactions as purchase business combinations.

On January 14, 2005, we acquired Loud Engineering & Manufacturing, Inc. ( Loud ) located in Ontario, California for approximately \$34.7 million, net of acquired cash of \$1.3 million. During 2006, we increased the recorded goodwill by \$5.4 million upon the release to the former shareholders of funds previously held in escrow. Loud is a leading designer and manufacturer of landing gear systems and related components for military helicopters and jets and is operated within our Instrumentation and Thermal Fluid Controls Products segment. In connection with the finalization of Loud's purchase price allocation, we recorded \$7.0 million of current assets, \$1.9 million of fixed assets, \$0.7 million of other assets, \$16.0 million of intangible assets, \$15.2 million of goodwill, \$3.1 million of current liabilities, and \$7.3 million of other liabilities. Included in the \$16.0 million of intangible assets are customer relationships, brand names, a license agreement and non-competition agreements. Approximately \$10.5 million of these intangible assets will be amortized over 10-20 year periods and will result in annual amortization expense of approximately \$0.7 million. The remaining \$5.5 million of intangible assets will not be amortized but will be subject to impairment tests. The \$20.6 million excess of the purchase price over the fair value of the net identifiable assets was recorded as goodwill and will not be deductible for tax purposes.

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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

In May 2005, we acquired the 40% interest that we did not own in our Chinese joint venture, Suzhou KF Valve Company, Ltd., ( SKVC ) located in Suzhou, China, for \$6.8 million. SKVC will continue to be operated in our Energy Products segment and primarily manufactures ball valves for other entities within our Energy Products segment. The excess of the purchase price over the fair value of the net identifiable assets was recorded as \$1.9 million of goodwill and an increase to an existing intangible of \$0.3 million and will not be deductible for tax purposes.

On October 3, 2005, we acquired Industria S.A. ( Industria ) located in Paris, France, for approximately \$10.2 million in cash. Industria produces solenoid valves and components for commercial and military aerospace applications and operates as part of our Aerospace Products business unit within our Instrumentation and Thermal Fluid Controls Products segment. In connection with the finalization of Industria's purchase price allocation, we recorded \$11.6 million of current assets, \$4.0 million of fixed assets, \$3.5 million of intangible assets, \$2.1 million of goodwill, \$5.6 million of current liabilities, and \$3.5 million of other liabilities. Included in the \$3.5 million of intangible assets are customer relationships, brand names, and technology which were recorded in 2006. Approximately \$2.0 million of these intangible assets will be amortized over 10-20 year periods and will result in annual amortization expense of approximately \$0.2 million. The remaining \$1.5 million of intangible assets will not be amortized but will be subject to impairment tests. The \$2.1 million excess of the purchase price over the fair value of the net identifiable assets was recorded as goodwill and will not be deductible for tax purposes.

On February 2, 2006, we purchased all of the outstanding stock of Sagebrush Pipeline Equipment Company ( Sagebrush ) based near Tulsa, Oklahoma, for \$12.5 million including the assumption of debt. During 2007, we increased the recorded goodwill by \$0.5 million upon the release to the former shareholders of funds previously held in escrow. We borrowed approximately \$10.0 million from our unsecured revolving credit facility in February 2006 to fund this acquisition. Sagebrush provides pipeline flow control and measurement equipment to the North American oil and gas markets and operates within our Energy Products segment. Sagebrush specializes in the design, fabrication, installation and service of pipeline flow control and measurement equipment such as launchers/receivers, valve settings, liquid metering skids, manifolds and gas and liquid measurement meter runs. Sagebrush sells both directly to the end-user pipeline companies in North America and through engineering, procurement and construction companies. In connection with Sagebrush's purchase price allocation, we recorded \$7.6 million of current assets, \$2.6 million of fixed assets, \$5.2 million of intangible assets, \$4.7 million of goodwill, \$5.5 million of current liabilities, and \$2.5 million of other liabilities. Included in the \$5.2 million of intangible assets are customer relationships, brand names, and non-competition agreements. Approximately \$2.3 million of these intangible assets will be amortized over 6-10 year periods and will result in annual amortization expense of approximately \$0.3 million. The remaining \$2.9 million of intangible assets will not be amortized but will be subject to impairment tests. The \$5.0 million excess of the original purchase price over the fair value of the net identifiable assets was recorded as goodwill and will not be deductible for tax purposes.

On February 6, 2006, we purchased all of the outstanding stock of Hale Hamilton Valves Limited and its subsidiary, Cambridge Fluid Systems ( Hale Hamilton ) headquartered outside of London in Uxbridge,

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**CIRCOR INTERNATIONAL, INC.**

**Notes to Consolidated Financial Statements (Continued)**

Middlesex UK, for \$51.9 million including the assumption of debt and \$10.1 million placed in an escrow account for the benefit of the sellers, subject to any such indemnification claims by us as are allowed in accordance with the acquisition agreement. This \$10.1 million escrow is restricted cash and is included in Other Assets on our consolidated balance sheet. We borrowed approximately \$51.0 million from our unsecured revolving credit facility in February 2006 to fund this acquisition. Hale Hamilton is a leading provider of high pressure valves and flow control equipment to the naval defense, industrial gas and high-technology industrial markets and operates as part of our Instrumentation and Thermal Fluid Products segment. Hale Hamilton supplies a wide range of components and equipment to the marine industry and has been a long standing relationship with the UK Ministry of Defense and leading manufacturers of naval defense platforms. In connection with Hale Hamilton's purchase price allocation, we recorded \$14.7 million of current assets, \$10.5 million of fixed assets, \$20.8 million of intangible assets, \$14.1 million of goodwill, \$9.2 million of current liabilities, and \$9.0 million of other liabilities. Included in the \$20.8 million of intangible assets are customer relationships, brand names, and technology. Approximately \$14.2 million of these intangible assets will be amortized over 12-15 year periods and will result in annual amortization expense of approximately \$1.0 million. The remaining \$6.6 million of intangible assets will not be amortized but will be subject to impairment tests. The \$14.1 million excess of the purchase price over the fair value of the net identifiable assets was recorded as goodwill and will not be deductible for tax purposes.

On December 8, 2006, we sold all of the outstanding stock of Societe Alsacienne Regulaves Thermiques von Rohr, S.A ( SART ), a French limited liability company for approximately \$2.7 million including \$0.4 million of cash sold. We had owned SART since June 2001 and recorded a gain of less than \$0.1 million in connection with the divestiture of this business.

On July 6, 2007, we purchased the assets of Survival Engineering, Inc. ( SEI ), for \$2.7 million including \$0.4 million placed in an escrow account for the benefit of the sellers, subject to any such indemnification claims by us as are allowed in accordance with the acquisition agreement. This \$0.4 million escrow is restricted cash and is included in Other Assets on our consolidated balance sheet. SEI is a leader in the design and manufacture of high quality pneumatic controls and inflation systems for the aerospace, marine, defense and industrial markets with annual revenues of approximately \$2.3 million. This business has been consolidated into one of our existing businesses in the Instrumentation and Thermal Fluid Controls Segment. In connection with the purchase of SEI, we recorded preliminary purchase price allocations of \$0.2 million of current assets, \$0.2 million of fixed assets, and \$1.9 million of goodwill. The excess of the purchase price over the fair value of the net identifiable assets was recorded as goodwill and will be deductible for tax purposes.

On September 28, 2007, Circor and its Instrumental and Thermal Fluid Controls Dutch subsidiary, Dovianus in Rotterdam, the Netherlands sold its 50% equity interest in Keofitt Holdings, A/S, a small Danish company to the other 50% joint venture partner for \$2.0 million. Keofitt, which was acquired as part of Circor's acquisition of Dovianus in 2003, served the beverage sterile sampling market, which was not considered strategic to our business going forward. Circor recorded a pretax gain on the sale of approximately \$1.6 million.

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

The following table reflects unaudited pro forma consolidated results on the basis that SEI, Hale Hamilton, Sagebrush, Loud, and Industria acquisitions and the SART divestiture took place and were recorded at the beginning of each of the respective periods presented (Unaudited, in thousands, except per share data):

	Year Ended December 31,		
	2007	2006	2005
Net revenue	\$ 666,859	\$ 592,612	\$ 519,989
Net income	\$ 37,938	\$ 30,052	\$ 26,693
Earnings per share: basic	\$ 2.31	\$ 1.88	\$ 1.70
Earnings per share: diluted	\$ 2.27	\$ 1.85	\$ 1.67

The unaudited pro forma consolidated results of operations may not be indicative of the actual results that would have occurred had the acquisitions been consummated at the beginning of each period, or of future operations of the consolidated companies under our ownership and management.

The following tables provide reconciliations of the net cash paid and goodwill recorded for acquisitions during the years ended December 31, 2007, 2006 and 2005 (In thousands):

	Year Ended December 31,		
	2007	2006	2005
<b>Reconciliation of net cash paid:</b>			
Fair value of assets acquired	\$ 2,312	\$ 80,211	\$ 61,851
Prior year escrow release payments			829
Acquisition escrow payments	392	10,616	5,400
Less: liabilities assumed		26,237	12,887
Less: accrued purchase price			985
Cash paid	2,704	64,590	54,208
Less: cash acquired		3,487	2,600
Net cash paid for acquired businesses	\$ 2,704	\$ 61,103	\$ 51,608
<b>Determination of goodwill:</b>			
Cash paid, net of cash acquired	\$ 2,704	\$ 61,103	\$ 51,608
Accrued purchase price			985
Liabilities assumed		26,237	12,887
Less: Acquisition escrow payments	392	10,616	5,400
Less: fair value of assets acquired, net of goodwill and cash acquired	379	57,945	36,194
Goodwill	\$ 1,933	\$ 18,779	\$ 23,887



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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

**(4) Special Charges**

During the twelve months ended December 31, 2007 we recorded special charges of \$2.5 million. These charges were comprised of \$2.4 million in costs associated with the Company's CEO and CFO retirement agreements, specifically the accelerated vesting of certain equity awards; \$1.2 million pertains to severance and facility related costs associated with the closing of a facility located in Connecticut within the Instrumentation and Thermal Fluid Controls segment, and a \$1.1 million net gain related to the sale of facilities classified as held for sale within the Energy Products Segment.

The following table sets forth our reserves and charges associated with the closure, consolidation and reorganization of certain manufacturing operations as follows (In thousands):

	Reserve Balance			Reserve Balance			Reserve Balance			Balance
	December 31, 2004	Provision 2005	Utilized 2005	December 31, 2005	Provision 2006	Utilized 2006	December 31, 2006	Provision 2007	Utilized 2007	December 31, 2007
<b>Special charges</b>										
Severance related	\$	\$ 1,717	\$ 1,101	\$ 616	\$ 160	\$ 776	\$	\$ 426	\$ (426)	\$
Facility related	90	(90)						798	(798)	
Total reserve	\$ 90	\$ 1,627	\$ 1,101	\$ 616	\$ 160	\$ 776	\$	\$ 1,224	\$ (1,224)	\$
(Gain) on sale (1)		(110)						(1,200)		
Asset write-downs		113			75			141		
Pension Curtailment					443					
CEO and CFO retirements								2,349		
Total special charges		\$ 1,630			\$ 678			\$ 2,514		

(1) Gain on sale relates to assets classified as held for sale.

**(5) Inventories**

Inventories consist of the following (In thousands):

December 31,  
2007                      2006

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Raw materials	\$ 73,499	\$ 61,997
Work in process	54,540	48,756
Finished goods	43,622	39,407
	\$ 171,661	\$ 150,160



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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

**(6) Property, Plant and Equipment**

Property, plant and equipment consists of the following (In thousands):

	December 31,	
	2007	2006
Land	\$ 12,319	\$ 11,936
Buildings and improvements	51,976	47,820
Manufacturing machinery and equipment	112,431	111,473
Computer equipment and software	14,750	12,792
Office equipment and motor vehicles	8,765	8,819
Construction in progress	3,464	828
	203,705	193,668
Accumulated depreciation	(121,240)	(114,629)
	\$ 82,465	\$ 79,039

**(7) Goodwill and Other Intangible Assets**

We completed our annual goodwill impairment valuation as of November 1, and determined that the fair value of the reporting units goodwill exceeded the carrying value and that no impairment existed.

The following table shows goodwill, by segment, net of accumulated amortization, as of December 31, 2007 and 2006 (In thousands):

	Instrumentation & Thermal Fluid Controls Products	Energy Products	Consolidated Total
Goodwill as of December 31, 2006	\$ 139,129	\$ 24,591	\$ 163,720
Business acquisitions (see Note 3)	1,933		1,933
Purchase price adjustment of previous acquisitions		500	500
Adjustments to preliminary purchase price allocation	346	70	416
Currency translation adjustments	1,793	748	2,541
Goodwill as of December 31, 2007	\$ 143,201	\$ 25,909	\$ 169,110



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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

	<b>Instrumentation &amp; Thermal Fluid Controls Products</b>	<b>Energy Products</b>	<b>Consolidated Total</b>
Goodwill as of December 31, 2005	\$ 121,308	\$ 18,871	\$ 140,179
Business acquisitions (see Note 3)	14,095	4,684	18,779
Purchase price adjustment of previous acquisitions	5,400	970	6,370
Adjustments to preliminary purchase price allocation	(3,870)		(3,870)
Sale of business	(926)		(926)
Currency translation adjustments	3,122	66	3,188
Goodwill as of December 31, 2006	\$ 139,129	\$ 24,591	\$ 163,720

The table below presents gross intangible assets and the related accumulated amortization (In thousands):

	<b>December 31, 2007</b>		<b>December 31, 2006</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Patents	\$ 5,713	\$ (5,333)	\$ 5,676	\$ (5,298)
Trademarks and trade names (non-amortizable)	18,651		18,388	
Land use rights	399	(21)	373	(10)
Customer relationships	27,378	(4,239)	27,066	(2,222)
Other	6,006	(1,181)	5,873	(620)
Total	\$ 58,147	\$ (10,774)	\$ 57,376	\$ (8,150)
Net carrying value of intangible assets	\$ 47,373		\$ 49,226	

The table below presents estimated future amortization expense for intangible assets recorded as of December 31, 2007 (In thousands):

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>After 2012</b>
Estimated amortization expense	\$ 2,474	\$ 2,474	\$ 2,474	\$ 2,474	\$ 2,475	\$ 16,350

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

**(8) Income Taxes**

The significant components of our deferred income tax liabilities and assets are as follows (In thousands):

	December 31,	
	2007	2006
<b>Deferred income tax liabilities:</b>		
Excess tax over book depreciation	\$ 8,155	\$ 9,130
Inventories	519	1,012
Goodwill and other intangibles	21,259	21,381
Other	240	249
Total deferred income tax liabilities	30,173	31,772
<b>Deferred income tax assets:</b>		
Accrued expenses	12,169	10,195
Inventories	5,427	4,859
Net operating loss and credit carry-forward	9,605	9,713
Intangible assets	248	233
Accumulated other comprehensive income pension benefit obligation	721	1,277
Other	717	575
Total deferred income tax assets	28,887	26,852
Valuation allowance	9,600	9,449
Deferred income tax asset, net of valuation allowance	19,287	17,403
Deferred income tax liability, net	\$ (10,886)	\$ (14,369)
<b>The above components of deferred income taxes are classified in the consolidated balance sheets as follows:</b>		
Net current deferred income tax asset	\$ 8,220	\$ 7,305
Net non-current deferred income tax liability	(19,106)	(21,674)
Deferred income tax liability, net	\$ (10,886)	\$ (14,369)
<b>Deferred income taxes by geography are as follows:</b>		
Domestic	\$ 4,495	\$ 4,538
Foreign	3,725	2,767
Net deferred income tax asset	\$ 8,220	\$ 7,305
Domestic	\$ (7,244)	\$ (9,427)
Foreign	(11,862)	(12,247)

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Net non-current deferred income tax liability

\$ (19,106)

\$ (21,674)

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

The provision for income taxes is based on the following pre-tax income (In thousands):

	Year Ended December 31,		
	2007	2006	2005
Domestic	\$ 17,476	\$ 16,558	\$ 13,548
Foreign	37,547	25,701	16,503
	\$ 55,023	\$ 42,259	\$ 30,051

The provision for income taxes consists of the following (In thousands):

	Year Ended December 31,		
	2007	2006	2005
<b>Current:</b>			
Federal	\$ 8,195	\$ 8,422	\$ 3,294
Foreign	11,872	7,766	5,815
State	619	1,451	594
	\$ 20,686	\$ 17,639	\$ 9,703
<b>Deferred (prepaid):</b>			
Federal	\$ (2,488)	\$ (3,547)	\$ 183
Foreign	(1,168)	(346)	(248)
State	82	(815)	30
	(3,574)	(4,708)	(35)
	\$ 17,112	\$ 12,931	\$ 9,668

Actual income taxes reported from operations are different from those that would have been computed by applying the federal statutory tax rate to income before income taxes. The reasons for these differences are as follows:

	Year Ended December 31,		
	2007	2006	2005
Computed expected federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	0.8	1.0	1.3
Foreign tax rate differential and credits	(4.0)	(3.0)	(1.8)
Extraterritorial income exclusion (formerly FSC)		(1.3)	(1.8)
Manufacturing deduction	(0.4)	(0.3)	

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Research and experimental credit	(1.0)	(0.9)	(0.8)
Other, net	0.7	0.1	0.3
Effective Tax Rate	31.1%	30.6%	32.2%

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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

At December 31, 2007, we had foreign tax credits of \$9.2 million, state net operating losses of \$1.3 million and state tax credits of \$0.6 million. The foreign tax credits, if not utilized, will expire in 2015-2017. The state net operating losses and state tax credits, if not utilized, will expire in 2020 through 2027. We had a valuation allowance of \$9.6 million and \$9.5 million as of December 31, 2007 and 2006, respectively, against the foreign tax credits, state operating losses, and state tax credits. 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.

The Company files income tax returns in the U.S. federal jurisdiction and in various state, local and foreign jurisdiction. The Company is no longer subject to U.S. federal examinations by the Internal Revenue Service for years prior to 2004. The Company is no longer subject to examination by the tax authorities in Italy for years prior to 2003. The Company is under examination for income tax filings in various state and foreign jurisdictions. In particular, German tax authorities commenced an examination at the beginning of 2007.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 supersedes SFAS No. 5, *Accounting for Contingencies*, as it related to income tax liabilities and lowers the minimum threshold a tax position is required to meet before being recognized in the financial statements from probable to more likely than not (i.e. a likelihood of occurrence greater than fifty percent.) Under FIN 48, the recognition threshold is met when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination by the relevant taxing authority. Those tax positions failing to qualify for initial recognition are recognized in the relevant taxing authority. Those tax positions failing to qualify for initial recognition are recognized in the first interim period in which they meet the more likely than not standard, or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations. Derecognition of a tax position that was previously recognized occurs when an entity subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained.

Under FIN 48, only the portion of the liability that is expected to be paid within one year is classified as a current liability. As a result, liabilities expected to be resolved without the payment of cash (e.g., resolution due to the expiration of the statute of limitations) or are not expected to be paid within one year are not classified as current. It is the Company's policy to record estimated interest and penalties as income tax expense and tax credits as a reduction in income tax expense. The Company recognizes both interest and penalties as part of the income tax provision. During the year ended December 31, 2007, the Company recognized approximately \$0.1 million in interest. As of December 30, 2007, accrued interest and penalties were \$0.2 million.

As of December 31, 2007 the Company has classified approximately \$1.0 million of unrecognized tax benefits as a current liability representing estimated settlements of current examinations which the Company believes will be settled within one year. Management is currently unaware of any issues under review that could result in significant additional payments, accruals, or other material variation from this estimate.



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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

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

The following is a reconciliation of the Company's total gross unrecognized tax benefits for the year ended December 31, 2007. Approximately \$2.3 million represents the amount, that if recognized would affect the Company's effective income tax rate in future periods. This amount differs from the gross unrecognized tax benefits presented in the table due to the decrease in the U.S. federal income taxes which would occur upon recognition of the state tax benefits included. Interest and penalties of \$0.2 million are included below (in thousands).

<b>Balance January 1, 2007</b>	<b>\$ 2,291</b>
Tax position related to current year	
Additions	312
Reductions	
Tax positions related to prior years	
Additions	
Reductions	
Lapse in Statute of Limitation	(37)
Settlements	(12)
<b>Balance December 31, 2007</b>	<b>\$ 2,554</b>

Undistributed earnings of our foreign subsidiaries amounted to \$66.8 million at December 31, 2007 and \$41.0 million at December 31, 2006. Upon distribution of any those earnings, in the form of dividends or otherwise, we will be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of U.S. income tax liability that would be incurred is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of any U.S. income tax liability. Withholding taxes of \$2.5 million would be payable upon remittance of all previously unremitted earnings at December 31, 2007.

Except for the Company's Dutch subsidiary, undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been recorded thereon. No additional provision is required for the undistributed earnings of the Dutch subsidiary.

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

**(9) Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consist of the following (In thousands):

	December 31,	
	2007	2006
Customer deposits and obligations	\$ 45,975	\$ 27,621
Commissions payable and sales incentive	9,727	8,192
Professional fees	3,076	1,813
Warranty reserve	2,602	2,750
Insurance	2,706	2,354
Taxes other than income tax	1,969	2,498
Other	6,426	8,105
	\$ 72,481	\$ 53,333

Customer deposits and obligations increased by \$18.4 million in 2007 primarily due to increased orders during the year ended December 31, 2007.

**(10) Financing Arrangements**

Long-term debt consists of the following (In thousands):

	December 31,	
	2007	2006
Unsecured revolving credit facility, at varying interest rates; as of December 31, 2007 interest rate was 5.39%	\$ 16,200	\$ 58,479
Industrial revenue bond maturing in August 2019, at variable interest rates of 3.54% at December 31, 2007, and 4.02% at December 31, 2006	4,760	4,760
Capital lease obligations	622	859
Other borrowings, at varying interest rates ranging from 4.31% to 8.93% in 2007 and 5.99% to 8.98% in 2006	520	728
Total long-term debt	22,102	64,826
Less: current portion	201	415
Total long-term debt, less current portion	\$ 21,901	\$ 64,411

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In December 2005, we entered into a new five-year, unsecured bank agreement that provided an unsecured \$95 million revolving credit facility and we terminated the previously available \$75 million revolving credit facility. In October 2006, we amended our credit agreement to increase the unsecured revolving credit facility to \$125 million. In accordance with the credit agreement, the rate of interest and facility fees we are charged vary based upon changes in our net debt leverage ratio. We can borrow at

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either the Euro dollar rate plus an applicable margin of 0.625% to 1.625% or at a base rate plus an applicable margin of 0% to 0.25%. The base rate for any day is the higher of the Fed Funds rate plus 0.50% or the lenders Prime rate. We are also required to pay an unused facility fee that can range from 0.15% to 0.35% per annum and a utilization fee of 0.10% per annum if our borrowings exceed 50% of the credit facility limit. The facility expires on the earlier of December 20, 2010 or the date on which the revolving credit facility commitments are terminated by the Lenders in accordance with the Credit Agreement. The entire principal amount of all outstanding loans is not due until the facility expiration date, as such this amount has been classified as long term. The \$125 million revolving credit facility is available to support our acquisition program, working capital requirements and general corporate purposes. At December 31, 2007, we had borrowings of \$16.2 million outstanding under our revolving credit facility.

On October 19, 1999, we issued \$75.0 million of unsecured notes that matured through annual principal payments from October 2002 to 2006. Proceeds from the notes and borrowings under the credit facility were used to repay \$96.0 million of investments by, and advances from, Watts and the outstanding balance under a then existing term loan agreement. Beginning on October 19, 2002, we commenced making \$15.0 million annual payments reducing the \$75.0 million outstanding balance of our unsecured 8.23% senior notes, which matured in October 2006. The last annual payment of \$15 million was paid in October 2006.

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; transfer assets among domestic and international entities; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. We were in compliance with all covenants related to our existing debt obligations at December 31, 2007 and December 31, 2006.

At December 31, 2007, minimum principal payments required during each of the next five years are as follows (In thousands):

	2008	2009	2010	2011	2012	After 2012
Minimum principal payments	\$ 201	\$ 330	\$ 16,356	\$	\$	\$ 5,215

**(11) Share-Based Compensation**

Prior to January 1, 2006 we accounted for our stock options using the intrinsic value method of accounting provided under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, ( APB 25 ) and related interpretations, as permitted by FASB Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Share-based Compensation, ( SFAS 123 ). Applying the intrinsic value method of accounting for our stock options, we did not record share-based compensation in our net earnings because the exercise price of our options equaled the market price of

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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

the underlying stock on the date of the grant. Accordingly, share-based compensation for our options was included as a proforma disclosure in the financial statement footnotes and continues to be provided as proforma disclosure in the financial statement footnotes for periods prior to January 1, 2006.

During 2004, we began granting restricted stock units ( RSU Awards ) in lieu of a portion of employee stock option awards and we have not granted any stock option awards in 2006 or 2007. We account for these RSU Awards by expensing their weighted average fair-value to selling, general and administrative expenses ratably over vesting periods ranging from three to six years. During the years ended December 31, 2007 and December 31, 2006 we granted 123,946 and 104,849 RSU Awards with approximate fair values of \$36.34 and \$27.90 per RSU Award, respectively.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123(R), Share-Based Payment, ( SFAS 123(R) ), using the modified-prospective transition method. Under this transition method, compensation cost recognized as selling, general and administrative expense in 2006 and 2007 includes compensation costs for all share-based payments granted through January 1, 2006, but for which the requisite service period had not been completed as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Compensation costs for any share-based payments granted subsequent to January 1, 2006 are based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for periods prior to January 1, 2006 have not been restated.

As a result of the adoption of SFAS 123(R), our net income for the year ended December 31, 2007 and December 31, 2006 is \$4.0 million and \$1.2 million lower, respectively, than if we continued to account for share-based payments under APB 25. The adoption of SFAS 123(R) reduced our basic and diluted earnings per share for the years ended December 31, 2007 and December 31, 2006 by \$0.24 and \$0.05 per share respectively. As of December 31, 2007 there was \$6.1 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 1.9 years.

Prior to the adoption of SFAS 123(R), we presented all tax benefits of deductions resulting from the exercise of share-based payments as operating cash flows in the Consolidated Statement of Cash Flows. SFAS 123(R) requires the cash flows resulting from tax deductions in excess of the compensation cost for those share-based awards (excess tax benefits) to be classified as financing activities.

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

The following table illustrates the effect on net income and earnings per share during the year December 31, 2005, if we had applied the fair value recognition provisions of SFAS 123, (In thousands, except per share data):

Net income	\$ 20,383
Add stock-based compensation expense included in reported net income, net of tax	690
Less stock-based employee compensation cost, that would have been included in the determination of net income under a fair value based method, net of tax	1,678
Pro forma net income as if the fair value based method had been applied to all awards	\$ 19,395
Earnings per common share (as reported):	
Basic	\$ 1.30
Diluted	\$ 1.27
Pro forma earnings per common share:	
Basic	\$ 1.24
Diluted	\$ 1.21

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. The model incorporates exercise and post-vesting forfeiture assumptions based on an analysis of historical data.

We did not grant any stock-options during the years ended December 31, 2007 and December 31, 2006. The following summary presents the weighted average assumptions used to estimate fair value our stock-option grants during the year ended December 31, 2005:

Risk-free interest rate	3.8%
Expected life (years)	6.4
Expected stock volatility	40.7%
Expected dividend yield	0.6%

As of December 31, 2007 we have one share-based compensation plan. The 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 grant 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; stock appreciation rights ("SARs") 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 1 to 6 years and expire 10 years after the grant date. As of December 31, 2007, 986,658 shares were available for grant under the 1999 Stock Plan.



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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

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 MIPS ). 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 MIP represents a right to receive one share of our common stock after a three-year vesting period. RSU MIPS are granted at a discount of 33% from the fair market value of the shares of common stock on the date of grant and vest after three years. This discount is amortized as compensation expense, to selling, general and administrative expenses, over a four-year period. 60,031 and 113,423 restricted stock units with per unit discount amounts representing fair values of \$11.96 and \$9.18 were granted under the CIRCOR Management Stock Purchase Plan during the twelve months ended December 31, 2007 and December 31, 2006, respectively.

At the date of our spin-off from Watts in October 1999, vested and non-vested Watts options held by our employees terminated in accordance with their terms and new options of equivalent value were issued under the 1999 Stock Plan to replace the Watts options ( replacement options ). The vesting dates and exercise periods of these options were not affected by the replacement. Based on their original Watts grant date, the replacement options vested during the years 1999 to 2003 and expire 10 years after grant of the original Watts options. Additionally, at the spin-off date, vested and non-vested Watts restricted stock units and SARs held by our employees were converted into comparable restricted stock units and SARs based on our common stock. Vested restricted stock units will be distributed in shares of our common stock. Upon exercise, vested SARs will be payable in cash. At December 31, 2007, there were 431,398 restricted stock units and 9,600 SARs outstanding. During 2007, a total of \$5.9 million of compensation expense related to RSU Awards, RSU MIPS, stock options and SARs was recorded as expense in our statement of operations. \$3.6 million was recorded as selling, general and administrative expense, and \$2.3 million was recorded as special charge. The amount recorded as special charge related to the modification of certain RSUs and stock options in connection with the retirements of our CEO and CFO. Compensation expense related to RSU Awards, RSU MIPS stock-options and SARs for the year ended December 31, 2006 was \$3.3 million and was recorded as selling, general and administrative expense.



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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

A summary of the status of all stock-options granted to employees and non-employee directors as of December 31, 2007, 2006, and 2005 and changes during the years are presented in the table below (Options in thousands):

	2007		December 31, 2006		2005	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	697	\$ 17.23	1,080	\$ 16.07	1,273	\$ 13.28
Granted					188	24.90
Exercised	(409)	15.60	(298)	12.17	(358)	10.55
Canceled	(15)	20.20	(85)	20.22	(23)	20.21
Options outstanding at end of period	273	\$ 19.50	697	\$ 17.23	1,080	\$ 16.07
Options exercisable at end of period	166	\$ 16.20	485	\$ 15.04	654	\$ 12.94
Weighted average fair value of options granted		N/A		N/A		\$ 10.92

The weighted average contractual term for stock-options outstanding and exercisable as of December 31, 2007 was 5.7 years and 4.9 years, respectively. The aggregate intrinsic value of stock-options exercised during the years ended December 31, 2007, 2006 and 2005 was \$9.8 million, \$6.1 million and \$5.2 million, respectively. The aggregate fair value of stock-options vested during the years ended December 31, 2007, 2006 and 2005 was \$0.8 million, \$1.1 million and \$1.3 million, respectively. The aggregate intrinsic value of stock-options outstanding and exercisable as of December 31, 2007 was \$7.3 million and \$5.0 million, respectively.

The following table summarizes information about stock options outstanding at December 31, 2007 (Options in thousands):

Range of Exercise Prices	Options	Options Outstanding		Options Exercisable	
		Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
\$ 7.17 \$ 7.88	4	2.6	\$ 7.50	4	\$ 7.50
7.89 10.51	12	1.8	10.38	12	10.38
10.52 15.77	93	4.9	13.83	93	13.83
15.78 18.40	18	3.8	16.32	18	16.32
18.41 23.66	1	7.3	22.97		
23.67 26.29	145	6.8	24.64	39	24.61
\$ 7.17 \$ 26.29	273	5.7	\$ 19.50	166	\$ 16.20

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

A summary of the status of all RSU Awards granted to employees and non-employee directors as of December 31, 2007, 2006, and 2005 and changes during the year are presented in the table below (RSUs in thousands):

	2007		December 31, 2006		2005	
	RSUs	Weighted Average Exercise Price	RSUs	Weighted Average Exercise Price	RSUs	Weighted Average Exercise Price
RSU Awards outstanding at beginning of period	162	\$ 26.83	102	\$ 25.01	38	\$ 22.61
Granted	124	36.34	105	27.90	76	25.47
Settled	(29)	26.37	(15)	24.27	(5)	23.81
Cancelled	(20)	26.38	(30)	25.67	(7)	23.88
RSU Awards outstanding at end of period	237	\$ 31.87	162	\$ 26.83	102	\$ 25.01
RSU Awards exercisable at end of period	25		12		5	
Weighted average fair value of RSU Awards granted		\$ 36.34		\$ 24.68		\$ 23.80

The aggregate intrinsic value of RSU Awards settled during the twelve months ended December 31, 2007, 2006 and 2005 was \$1.5 million, \$0.6 million and \$0.2, respectively. The aggregate fair value of RSU Awards vested during the twelve months ended December 31, 2007, 2006 and 2005 was \$1.5 million, \$0.8 million and \$0.3, respectively. The aggregate intrinsic value of RSU Awards outstanding and exercisable as of December 31, 2007 was \$11.0 million and \$1.2 million, respectively.

The following table summarizes information about RSU Awards outstanding at December 31, 2007:

Range of Exercise Prices	RSU Awards Outstanding			RSU Awards Vested	
	RSUs (thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	RSUs (thousands)	Weighted Average Exercise Price
\$22.00 \$ 23.99	5	0.03	\$ 23.78	4	\$ 23.80
24.00 25.99	26	0.13	24.90	12	24.90
26.00 27.99	77	1.08	27.82	9	27.84
28.00 29.99	5	1.30	28.88		
30.00 36.99	122	2.16	36.22		
37.00 45.99	2	2.59	42.28		
\$22.00 \$45.99	237	1.52	\$ 31.87	25	\$ 25.71

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

A summary of the status of all RSU MIPs granted to employees and non-employee directors as of December 31, 2007, 2006, and 2005 and changes during the year are presented in the table below (RSUs in thousands):

	2007		December 31, 2006		2005	
	RSUs	Weighted Average Exercise Price	RSUs	Weighted Average Exercise Price	RSUs	Weighted Average Exercise Price
RSU MIPs outstanding at beginning of period	179	\$ 16.69	154	\$ 12.96	173	\$ 11.70
Granted	60	24.27	113	18.63	27	16.68
Settled	(32)	15.90	(45)	11.27	(30)	10.11
Cancelled	(13)	16.04	(43)	14.68	(16)	11.80
RSU MIPs outstanding at end of period	194	\$ 19.20	179	\$ 16.69	154	\$ 12.96
RSU MIPs exercisable at end of period	21	\$ 9.35	20	\$ 8.41	61	\$ 8.41
Weighted average fair value of RSU MIPs granted		\$ 24.27		\$ 18.63		\$ 16.68

The aggregate intrinsic value of RSU MIPs settled during the twelve months ended December 31, 2007, 2006 and 2005 was \$1.5 million, \$1.8 million and \$1.1 million, respectively. The aggregate fair value of RSU MIPs vested during the twelve months ended December 31, 2007, 2006 and 2005 was \$0.7 million, \$0.3 million and \$0.6 million, respectively. The aggregate intrinsic value of RSU MIPs outstanding and exercisable as of December 31, 2007 was \$5.3 million and \$0.8 million, respectively.

The following table summarizes information about RSU MIPs outstanding at December 31, 2007 (RSUs in thousands):

Range of Exercise Prices	RSUs	RSU MIPs Outstanding		RSU MIPs Vested	
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	RSUs	Weighted Average Exercise Price
\$ 5.03 \$ 7.99	9		\$ 5.84	9	\$ 5.84
8.00 10.99	6		10.20	6	10.20
11.00 13.99	3		12.72	3	12.72
14.00 16.99	19	0.11	16.57	3	15.92
17.00 19.99	97	1.16	18.63		
20.00 24.99	60	2.16	24.27		
\$ 5.03 \$24.99	194	1.25	\$ 19.20	21	\$ 9.35

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

**(12) Accumulated Other Comprehensive Income**

The accumulated other comprehensive income consists of the following (In thousands):

	December 31, 2007		
	Gross Amount	Tax Effect	Net of Tax
Cumulative translation adjustment	\$ 36,750	\$	\$ 36,750
Pension liability	(1,898)	721	(1,177)
<b>Total accumulated other comprehensive income</b>	<b>\$ 34,852</b>	<b>\$ 721</b>	<b>\$ 35,573</b>

	December 31, 2006		
	Gross Amount	Tax Effect	Net of Tax
Cumulative translation adjustment	\$ 25,464	\$	\$ 25,464
Pension liability	(2,285)	868	(1,417)
Pension liability adjustment to apply SFAS 158	(1,076)	409	(667)
<b>Total accumulated other comprehensive income</b>	<b>\$ 22,103</b>	<b>\$ 1,277</b>	<b>\$ 23,380</b>

The increase in our cumulative translation adjustment balance of \$11.3 million from December 31, 2006 to December 31, 2007 was primarily a result of the devaluation of the US dollar against other foreign currencies.

**(13) Employee Benefit Plans**

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

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Effective December 2006, we adopted the recognition and disclosure provisions of SFAS No.158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) . We recognized in the balance sheet the underfunded

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

status of the defined benefit post-retirement plans, measured as the difference between the fair value of plan assets and the projected benefit obligation. Changes in the funded status of the plan in the year in which the change occurs are recognized in other comprehensive income.

During the first quarter of 2007, we changed our measurement date for both of our plans from September 30th to December 31st. In accordance with the measurement date transition provisions of SFAS No. 158, we remeasured the obligations and plan assets as of the beginning of our 2007 fiscal year. As a result of this remeasurement, the unfunded status of our plans decreased approximately \$2.0 million due to an increase in the fair value of plan assets and a reduction of our projected benefit obligation of approximately \$1.2 million and \$0.8 million, respectively as of January 1, 2007. The reduction of our projected benefit obligation was primarily a result of a change in our discount rates. We recorded an adjustment to retained earnings of less than \$0.1 million, after tax, equal to the net benefit costs for the period from October 1, 2006 to December 31, 2006. In addition, we recorded \$1.3 million, after tax, as an adjustment to the opening balance of accumulated other comprehensive income related to the difference between the fair value of plan assets and the projected benefit obligation as of January 1, 2007

During 2007, we did not make any cash contributions to our qualified defined benefit pension plan. In 2008, we are not expecting to make voluntary cash contributions 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 benefit expense are as follows (In thousands):

	Year Ended December 31,		
	2007	2006	2005
<b>Components of net benefit expense:</b>			
Service cost-benefits earned	\$ 643	\$ 1,724	\$ 2,159
Interest cost on benefits obligation	1,848	1,713	1,453
Expected return on assets	(2,390)	(2,205)	(1,854)
<b>Net pension costs and return</b>	<b>101</b>	<b>1,232</b>	<b>1,758</b>
Net loss amortization	61	217	199
Transition asset amortization	(8)	(8)	(8)
Prior service cost amortization	20	59	98
<b>Total amortization items</b>	<b>73</b>	<b>268</b>	<b>289</b>
Net periodic cost of defined benefits plans	174	1,500	2,047
Cost of 401(k) plan company match contributions	3,536	1,101	339

Net benefit expense	\$ 3,710	\$ 2,601	\$ 2,386
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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

The weighted average assumptions used in determining the net periodic benefit cost and benefit obligations and net benefit cost for the pension plans are shown below:

	Year Ended December 31,		
	2007	2006	2005
<b>Net periodic benefit cost:</b>			
Discount rate qualified plan	6.15%	5.50%	5.80%
Discount rate nonqualified plan	6.05%	5.50%	5.80%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%
<b>Benefit obligations:</b>			
Discount rate	6.25%	5.80%	5.50%
Rate of compensation increase nonqualified plan	4.00%	4.00%	4.00%
Rate of compensation increase qualified plan	0.00%	0.00%	4.00%

The qualified plan was remeasured on March 31, 2006 due to freeze in pension accruals after July 1, 2006. The discount rate used to determine net periodic benefit cost for the period after July 1, 2006 was 6%.

In selecting the expected long-term rate of return on assets, we considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of these plans. This included considering the pension asset allocation and the expected returns likely to be earned over the life of the plans. This basis is consistent with 2006.



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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

The funded status of the defined benefit plans and amounts recognized in the balance sheets, measured as of December 31, 2007 and September 30, 2006 are as follows (In thousands):

	December 31,	
	2007	2006
<b>Change in projected benefit obligation:</b>		
Balance at beginning of year	\$ 31,250	\$ 31,884
Service cost	643	1,724
Interest cost	1,848	1,713
Actuarial loss	56	(1,430)
Benefits paid	(701)	(587)
Administrative expenses	(404)	(271)
Curtailments		(1,783)
Change in measurement date	(806)	
Balance at end of year	\$ 31,886	\$ 31,250
<b>Change in fair value of plan assets:</b>		
Balance at beginning of year	\$ 27,110	\$ 25,513
Actual return on assets	1,663	2,431
Benefits paid	(700)	(587)
Administrative expenses	(404)	(271)
Assets adjusted	1,321	
Employer contributions	35	24
Fair value of plan assets at end of year	\$ 29,025	\$ 27,110
<b>Funded status:</b>		
Excess of projected benefit obligation over the fair value of plan assets	\$ (2,861)	\$ (4,140)
Contribution after measurement date		9
Net accrued benefit cost	\$ (2,861)	\$ (4,131)
Pension plan accumulated benefit obligation ( ABO )	\$ 27,426	\$ 28,074
Supplemental pension plan ABO	4,346	2,162
Aggregate ABO	\$ 31,772	\$ 30,236
Accrued pension liability prior to SFAS 158	N/A	(780)
Plan assets for funded pension plan	\$ 29,025	\$ 27,110

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

As required by SFAS 158 the following information is presented as of December 31, 2007 (In Thousands):

<b>Funded status, end of year:</b>	
Fair value of plan assets	29,025
Benefit obligations	(31,886)
Net Pension Liability	\$ (2,861)
<b>Pension Liability recognized in the balance sheet consists of:</b>	
Noncurrent asset	1,599
Current liability	(326)
Noncurrent liability	(4,134)
Total	\$ (2,861)
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>	
Net actuarial losses	1,864
Prior service cost / (credit)	36
Transition obligation / (asset)	(2)
Total	\$ 1,898
<b>Estimated pension expense to be recognized in other comprehensive income in 2008 consists of:</b>	
Net actuarial losses	(2)
Prior service cost / (credit)	127
Transition obligation / (asset)	20
Total	\$ 145

At December 31, 2007, the benefit payments expected to be paid in each of the next five years and the aggregate for the five fiscal years thereafter are as follows (In thousands):

	2008	2009	2010	2011	2012	2013	2017
Expected benefit payments	\$ 1,057	\$ 1,143	\$ 1,268	\$ 1,397	\$ 1,506	\$ 9,441	

The plan assets were held in the following types of investment securities at year-end, expressed as a percent of total assets:

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	2007	2006
Equity securities	50%	70%
Debt securities	50%	30%
	100%	100%

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**CIRCOR INTERNATIONAL, INC.**

**Notes to Consolidated Financial Statements (Continued)**

Our investment objectives for the portfolio of the plans' assets are to match, as closely as possible, the return of a composite benchmark comprised of: 40% of the Russell 1000 Index; 15% of the Russell 2000 Index; 15% of the Morgan Stanley Capital International EAFE Index; and 30% of the Lehman Brothers Aggregate Bond Index. We also seek to maintain a level of volatility (measured as standard deviation of returns) which approximates that of the composite benchmark returns. Rebalancing among asset classes will occur on an annual basis to ensure that the targeted asset allocations are maintained.

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

**(14) Contingencies, Commitments and Guarantees**

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

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

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

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

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

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

The information reflected above includes a jury verdict rendered on October 12, 2007 by a Los Angeles state court jury that, if allowed to stand, would result in a liability to Leslie of approximately

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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

\$2.5 million (29%, or approximately \$0.7 million, would be paid by Leslie while insurance would pay the balance). Although Leslie accrued a liability in the third quarter of fiscal 2007 for this verdict, both Leslie and the other defendant against whom the judgment was rendered have appealed this verdict. We believe there are strong grounds for either significantly reducing the amount of the award or for requiring a new trial.

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

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

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

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

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

the severity of the injuries alleged by each pending claimant;

increases or decreases in Leslie's average settlement costs;

possible adverse or favorable jury verdicts;

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

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

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

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

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

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To date, Leslie's insurers have paid the vast majority of the costs associated with its defense and settlement of asbestos-related actions. Under Leslie's current cost-sharing arrangements with its insurers, Leslie's insurers pay 71% of defense and settlement costs associated with asbestos-related claims and Leslie is responsible for the remaining 29% of all such defense and indemnity costs. The amount of indemnity available under Leslie's primary layer of insurance coverage is therefore reduced by 71% of any amounts paid through settlement or verdict. We believe that, as of December 31, 2007, excluding the



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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

impact of the October 12, 2007 adverse jury verdict, and without giving effect to our estimate for the indemnity cost of resolving pending claims, the aggregate amount of indemnity remaining on Leslie's primary layer of insurance was approximately \$10.5 million. If the October 12, 2007 jury verdict were to stand, our primary layer of insurance could be reduced by an additional \$1.8 million. Similarly, if our estimate of the indemnity cost of resolving pending claims is accurate, such resolution ultimately would further reduce the aggregate amount of primary layer indemnity by approximately \$6.4 million. Based on its current estimate of costs to resolve Leslie's pending asbestos claims, Leslie's management believes that this primary layer of insurance should be sufficient to cover such pending claims. As set forth above, we cannot estimate the amount of any liabilities associated with such future claims and therefore cannot reasonably estimate when and if the primary insurance may be eroded. In addition, Leslie has limited available excess insurance coverage. Some of this excess insurance, however, lies above layers of excess insurance written by insolvent insurers, which could affect when Leslie may be able to recover this excess insurance. Moreover, unlike primary policies under which defense costs do not erode policy limits, the terms of excess policies typically provide that covered defense costs do erode policy limits. As a result, if its primary insurance layer were exhausted, Leslie would likely become responsible for a substantial majority of any defense and indemnity costs, which could have a material adverse effect on our financial condition, results of operations, or cash flows.

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

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

Various other claims and legal proceedings generally incidental to the normal course of business are pending or threatened on behalf or threatened on behalf of or against CIRCOR. While we cannot predict the outcome of these matters, we believe that any liability arising from them will not have a material adverse effect on our financial condition or results of operations or cash flows.

**Standby Letters of Credit**

We execute standby letters of credit, which include bid bonds and performance bonds, in the normal course of business to ensure our performance or payments to third parties. The aggregate notional value of these instruments was \$41.8 million at December 31, 2007. Our historical experience with these types of instruments has been good and no claims have been paid in the current or past four fiscal years. We believe that the likelihood of demand for payments relating to the outstanding instruments is remote.

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

These instruments have expiration dates ranging from less than one month to four and a half years from December 31, 2007.

The following table contains information related to standby letters of credit instruments outstanding as of December 31, 2007 (In thousands):

<b>Term Remaining</b>	<b>Maximum Potential Future Payments</b>
0-12 months	\$ 21,814
Greater than 12 months	19,983
<b>Total</b>	<b>\$ 41,797</b>

**Operating Lease Commitments**

Rental expense under operating lease commitments amounted to: \$6.6 million, \$5.3 million and \$5.0 million for the years ended December 31, 2007, 2006 and 2005, respectively. Minimum rental commitments due under non-cancelable operating leases, primarily for office and warehouse facilities, at December 31, 2007 were (In thousands):

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>After 2012</b>
Minimum lease commitments	\$ 5,539	\$ 3,680	\$ 1,098	\$ 584	\$ 299	\$ 100

**Commercial Contract Commitment**

As of December 31, 2007 we have approximately \$87.3 million of commercial contract commitments related to open purchase orders.

**Self Insurance**

We are primarily self-insured for workers' compensation, automobile, product and general liability, and health costs, and we believe that we maintain adequate accruals to cover our retained liability. Our accruals for self-insurance liabilities are based on claims filed and reported and estimates of claims incurred but not yet reported, and are not discounted. Management considers a number of factors, including third-party actuarial valuations, when making these determinations. We maintain third-party stop-loss insurance policies to cover certain liability costs in excess of predetermined annual or individual claim amounts.

**(15) 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

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. However, we have directors and officers liability insurance policies that limit our exposure for events covered under the policies and should enable us to recover a portion of any future amounts paid. As a result of the coverage under these insurance policies, we believe the estimated fair value of these indemnification agreements is minimal and, therefore, have no liabilities recorded from those agreements as of December 31, 2007.

In connection with our industrial revenue bond financing arrangement which benefits one of our subsidiaries, we are obligated to indemnify the banks in connection with certain errors in the administration of these financing arrangements to the extent such errors are not willful and do not constitute gross negligence. This indemnification obligation is unlimited as to time and amount. We have never been required to make any payments pursuant to this indemnification. As a result, we believe the estimated fair value of this indemnification agreement is minimal. Accordingly, we have no liabilities recorded for those agreements as of December 31, 2007.

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 year ended December 31, 2007 (In thousands):

Balance at December 31, 2006	\$ 2,750
Provisions	1,816
Claims settled	2,105
Currency translation adjustments	141
Balance at December 31, 2007	\$ 2,602

**(16) 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. Investments are carried at cost which approximates their fair value at the balance sheet date. The fair value of our variable rate debt approximates its carrying value.



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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

In the normal course of our business, we manage risk associated with foreign exchange rates through a variety of strategies, including the use of hedging transactions, executed in accordance with our policies. As a matter of policy, we ordinarily do not use derivative instruments unless there is an underlying exposure. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the underlying hedged items. We do not use derivative instruments for speculative trading purposes.

Accounting Policies

Using qualifying criteria defined in Statement No. 133, derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument that are highly effective are deferred in accumulated other comprehensive income or loss until the underlying hedged item is recognized in earnings. If the effective portion of fair value or cash flow hedges were to cease to qualify for hedge accounting, or to be terminated, it would continue to be carried on the balance sheet at fair value until settled; however, hedge accounting would be discontinued prospectively. If forecasted transactions were no longer probable of occurring within the specified time period or within an additional 2 month period thereafter, amounts previously deferred in accumulated other comprehensive income or loss would be recognized immediately in earnings. During 2007 and 2006, we did not have any hedges that qualified for hedge accounting.

Foreign Currency Risk

We use forward contracts to manage the currency risk related to certain business transactions denominated in foreign currencies. To the extent the underlying transactions hedged are completed, the contracts do not subject us to significant risk from exchange rate movements because they offset gains and losses on the related foreign currency denominated transactions. Our foreign currency forward contracts have not been designated as hedging instruments and, therefore, did not qualify for fair value or cash flow hedge treatment under the criteria of Statement No. 133 for the years ended December 31, 2007 and 2006. Therefore, the unrealized gains and losses on our contracts have been recognized as a component of other expense in the consolidated statements of operations. There were no net unrealized gains attributable to foreign currency forward contracts at December 31, 2007 and 2006. As of December 31, 2007, we had seven forward contracts to sell currencies with a face value of \$2.0 million. This compares to three forward contracts to sell currencies with a face value of \$0.6 million as of December 31, 2006.

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

**(17) Segment Information**

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

	<b>Instrumentation &amp; Thermal Fluid</b>			<b>Consolidated Total</b>
	<b>Controls Products</b>	<b>Energy Products</b>	<b>Corporate/ Eliminations</b>	
<b>Year Ended December 31, 2007</b>				
Net revenues	\$ 343,596	\$ 322,144	\$	\$ 665,740
Inter-segment revenues	2	43	(45)	
Operating income (loss)	26,287	50,690	(20,210)	56,767
Interest income				(393)
Interest expense				3,394
Other income, net				(1,257)
Income before income taxes				55,023
Identifiable assets	406,711	317,991	(48,233)	676,469
Capital expenditures	7,167	4,738	78	11,983
Depreciation and amortization	8,690	4,573	186	13,449
<b>Year Ended December 31, 2006</b>				
Net revenues	\$ 312,700	\$ 279,011	\$	\$ 591,711
Inter-segment revenues	3	2	(5)	
Operating income (loss)	27,658	36,102	(16,250)	47,510
Interest income				(429)
Interest expense				5,546
Other income, net				134
Income before income taxes				42,259
Identifiable assets	370,128	256,362	(20,815)	605,675
Capital expenditures	5,262	4,642	29	9,933
Depreciation and amortization	8,494	4,907	199	13,600
<b>Year Ended December 31, 2005</b>				
Net revenues	\$ 251,276	\$ 199,255	\$	\$ 450,531
Inter-segment revenues	62	14	(76)	
Operating income (loss)	27,842	19,081	(13,918)	33,005
Interest income				(579)
Interest expense				3,389
Other income, net				144
Income before income taxes				30,051
Identifiable assets	307,292	145,859	7,229	460,380
Capital expenditures	7,446	7,215	361	15,021
Depreciation and amortization	6,305	3,929	179	10,413

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

Each reporting segment is individually managed and has separate financial results that are reviewed by our chief operating decision-maker. Each segment contains closely related products that are unique to the particular segment. Refer to Note (1) for further discussion of the products included in each segment.

In calculating profit from operations for individual reporting segments, 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 Adjustments amounts 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 Adjustment column of the Segment Information footnote disclosures consists primarily of the following corporate expenses: compensation and fringe costs for executive management and other corporate staff; corporate development costs (relating to mergers & acquisitions); human resource development and benefit plan administration expenses; legal, accounting and other professional and consulting fees; facilities, equipment and maintenance costs; and travel and various other administrative costs. The above costs are incurred in the course of furthering the business prospects of the Company and relate to activities such as: implementing strategic business growth opportunities; corporate governance; risk management; treasury; investor relations and shareholder services; regulatory compliance; and stock transfer agent costs.

The total assets for of each respective operating segment have 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 Adjustments includes both corporate assets, such as cash, deferred taxes, prepaid and other assets, fixed assets, plus the elimination of all inter-segment intercompany assets. The elimination of intercompany assets results in negative amounts reported in Corporate Adjustments for Identifiable Assets for the years ended December 31, 2007 and 2006. Corporate Identifiable Assets after elimination of intercompany assets were \$9.2 million, \$7.2 million, and \$24.0 million for the periods ended December 31, 2007, 2006 and 2005, respectively.

All intercompany transactions have been eliminated, and inter-segment revenues are not significant. The following tables present net revenue and long-lived assets by geographic area. The net revenue amounts are based on shipments to each of the respective areas.

Net revenues by geographic area (In thousands)	Year Ended December 31,		
	2007	2006	2005
United States	\$ 358,066	\$ 311,056	\$ 238,537
United Kingdom	46,659	41,071	16,122
Germany	38,339	28,240	22,463
Canada	31,492	32,102	28,451
Netherlands	23,652	19,087	24,184
France	19,169	23,357	14,327



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Other	148,363	136,798	106,447
Total net revenues	\$ 665,740	\$ 591,711	\$ 450,531

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## CIRCOR INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements (Continued)

Long-lived assets by geographic area (In thousands)	December 31,	
	2007	2006
United States	\$ 59,471	\$ 60,095
United Kingdom	31,728	33,065
China	10,726	10,188
Germany	10,415	9,453
France	9,234	8,276
Netherlands	3,761	3,434
Italy	4,279	3,267
Canada	223	487
Total long-lived assets	\$ 129,838	\$ 128,265

During February 2006 we acquired Hale Hamilton and Sagebrush. During December 2006 we sold SART. During July 2007 we acquired SEI.

**(18) Quarterly Financial Information (Unaudited, in thousands, except per share information)**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Year ended December 31, 2007</b>				
Net revenues	\$ 161,263	\$ 165,937	\$ 164,017	\$ 174,523
Gross profit	44,792	49,821	47,552	53,202
Net income	7,407	10,018	10,365	10,121
Earnings per common share:				
Basic	\$ 0.46	\$ 0.61	\$ 0.63	\$ 0.61
Diluted	0.45	0.60	0.62	0.60
Dividends per common share	\$ 0.0375	\$ 0.0375	\$ 0.0375	\$ 0.0375
Stock Price range:				
High	\$ 37.49	\$ 41.60	\$ 47.56	\$ 50.38
Low	32.78	34.68	37.24	39.34
<b>Year ended December 31, 2006</b>				
Net revenues	\$ 127,295	\$ 144,389	\$ 150,412	\$ 169,615
Gross profit	38,338	42,121	43,478	48,971
Net income	5,164	6,458	7,323	10,383
Earnings per common share:				
Basic	\$ 0.33	\$ 0.40	\$ 0.46	\$ 0.65
Diluted	0.32	0.40	0.45	0.63
Dividends per common share	\$ 0.0375	\$ 0.0375	\$ 0.0375	\$ 0.0375
Stock Price range:				
High	\$ 29.50	\$ 32.00	\$ 31.90	\$ 38.34
Low	25.34	26.90	26.82	29.85

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CIRCOR INTERNATIONAL, INC.

Notes to Consolidated Financial Statements (Continued)

**(19) Capital Structure**

We have adopted a shareholder rights plan providing for the issuance of rights that will cause substantial dilution to a person or group of persons that acquires 15% (or with respect to passive investors 20%) or more of our shares of common stock, unless the rights are redeemed. These rights allow shareholders of our common stock to purchase a unit consisting of one ten thousandth of a share of our series A junior participating cumulative preferred stock, par value \$0.01 per share, at a cash exercise price per unit of \$48.00, subject to adjustments.

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## Schedule II Valuation and Qualifying Accounts

## CIRCOR INTERNATIONAL, INC.

Description	Balance at Beginning of Period	Additions		Deductions (1)	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts (In thousands)		
Year ended December 31, 2007					
Deducted from asset account:					
Allowance for doubtful accounts	\$ 2,523	\$ 237	\$ 142	\$ 751	\$ 2,151
Year ended December 31, 2006					
Deducted from asset account:					
Allowance for doubtful accounts	\$ 1,943	\$ 973	\$ 191(2)	\$ 584	\$ 2,523
Year ended December 31, 2005					
Deducted from asset account:					
Allowance for doubtful accounts	\$ 2,549	\$ 388	\$ (321)(3)	\$ 673	\$ 1,943

(1) Uncollectible accounts written off, net of recoveries.

(2) Includes \$130 and \$6 thousand acquired in connection with the acquisitions of Hale Hamilton and Sagebrush, respectively.

(3) Includes \$(296) thousand acquired in connection with the acquisition of Mallard in 2004.