

CIRCOR INTERNATIONAL INC

Form 10-Q

May 03, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended April 1, 2012.

OR

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

For the transition period from            to            .

Commission File Number 001-14962

**CIRCOR INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**04-3477276**  
(I.R.S. Employer  
Identification No.)

**c/o CIRCOR, Inc.**  
**25 Corporate Drive, Suite 130, Burlington, MA**  
(Address of principal executive offices)

**(781) 270-1200**

**01803-4238**  
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

As of April 19, 2012, there were 17,402,483 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

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**CIRCOR INTERNATIONAL, INC.**

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

(In thousands, except per share data)

	<b>April 1, 2012 (Unaudited)</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 41,291	\$ 54,855
Short-term investments	101	99
Trade accounts receivable, less allowance for doubtful accounts of \$1,152 and \$1,127, respectively	154,930	156,075
Inventories	208,125	203,777
Prepaid expenses and other current assets	17,067	12,376
Deferred income tax asset	16,578	16,320
Assets held for sale	542	542
Total Current Assets	438,634	444,044
PROPERTY, PLANT AND EQUIPMENT, NET	105,973	104,434
<b>OTHER ASSETS:</b>		
Goodwill	78,676	77,829
Intangibles, net	58,188	58,442
Deferred income tax asset	28,054	27,949
Other assets	11,008	9,825
<b>TOTAL ASSETS</b>	<b>\$ 720,533</b>	<b>\$ 722,523</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 87,420	\$ 92,493
Accrued expenses and other current liabilities	61,332	63,386
Accrued compensation and benefits	23,457	24,328
Asbestos liability	1,000	1,000
Income taxes payable	4,310	5,553
Notes payable and current portion of long-term debt	3,159	8,796
Total Current Liabilities	180,678	195,556
LONG-TERM DEBT, NET OF CURRENT PORTION	95,496	96,327
DEFERRED INCOME TAXES	11,480	11,284
OTHER NON-CURRENT LIABILITIES	33,861	35,271
<b>CONTINGENCIES AND COMMITMENTS (See Note 10)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding	0	0
Common stock, \$0.01 par value; 29,000,000 shares authorized; 17,392,225 and 17,268,212 shares issued and outstanding at April 1, 2012 and December 31, 2011, respectively	174	173

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Additional paid-in capital	259,538	258,209
Retained earnings	138,296	130,373
Accumulated other comprehensive income (loss)	1,010	(4,670)
<b>Total Shareholders' Equity</b>	<b>399,018</b>	<b>384,085</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 720,533</b>	<b>\$ 722,523</b>

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

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

(In thousands, except per share data)

**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>April 1, 2012</b>	<b>April 3, 2011</b>
Net revenues	\$ 214,280	\$ 203,370
Cost of revenues	155,668	147,142
<b>GROSS PROFIT</b>	<b>58,612</b>	<b>56,228</b>
Selling, general and administrative expenses	44,912	42,455
Leslie asbestos and bankruptcy charges, net	0	1,001
<b>OPERATING INCOME</b>	<b>13,700</b>	<b>12,772</b>
Other (income) expense:		
Interest income	(83)	(43)
Interest expense	1,164	816
Other, net	138	915
<b>TOTAL OTHER EXPENSE</b>	<b>1,219</b>	<b>1,688</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>12,481</b>	<b>11,084</b>
Provision for income taxes	3,896	3,178
<b>NET INCOME</b>	<b>\$ 8,585</b>	<b>\$ 7,906</b>
Earnings per common share:		
Basic	\$ 0.50	\$ 0.46
Diluted	\$ 0.49	\$ 0.45
Weighted average number of common shares outstanding:		
Basic	17,315	17,163
Diluted	17,390	17,378
Dividends paid per common share	\$ 0.0375	\$ 0.0375

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

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**CIRCOR INTERNATIONAL, INC.**

**STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME**

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>April 1, 2012</b>	<b>April 3, 2011</b>
Net income	\$ 8,585	\$ 7,906
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	5,680	9,449
Other comprehensive income	5,680	9,449
<b>COMPREHENSIVE INCOME</b>	<b>\$ 14,265</b>	<b>\$ 17,355</b>

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

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

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>April 1, 2012</b>	<b>April 3, 2011</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 8,585	\$ 7,906
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	4,008	3,575
Amortization	964	1,418
Compensation expense of share-based plans	1,195	1,136
Tax effect of share-based compensation	479	(256)
Loss on disposal of property, plant and equipment	2	2
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Trade accounts receivable	3,539	3,734
Inventories	(2,179)	(2,818)
Prepaid expenses and other assets	(5,549)	(6,657)
Accounts payable, accrued expenses and other liabilities	(14,011)	(4,822)
Net cash (used in) provided by operating activities	(2,967)	3,218
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(4,122)	(2,693)
Proceeds from the sale of property, plant and equipment	15	12
Purchase of investments	0	(1)
Business acquisitions, net of cash acquired	0	(20,221)
Net cash used in investing activities	(4,107)	(22,903)
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	41,123	60,748
Payments of long-term debt	(47,806)	(34,778)
Dividends paid	(666)	(663)
Proceeds from the exercise of stock options	73	213
Tax effect of share-based compensation	(479)	256
Net cash (used in) provided by financing activities	(7,755)	25,776
Effect of exchange rate changes on cash and cash equivalents	1,265	1,648
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,564)	7,739
Cash and cash equivalents at beginning of period	54,855	45,752
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 41,291</b>	<b>\$ 53,491</b>

## Supplemental Cash Flow Information:

## Cash paid during the three months for:

Income taxes	\$ 4,839	\$ 3,766
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Interest	\$ 1,039	\$ 599
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**CIRCOR INTERNATIONAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(1) Basis of Presentation**

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

The consolidated balance sheet at December 31, 2011 is as reported in our audited financial statements as of that date. Our accounting policies are described in the notes to our December 31, 2011 financial statements, which were included in our Annual Report filed on Form 10-K. We recommend that the financial statements included in this Quarterly Report on Form 10-Q be read in conjunction with the financial statements and notes included in our Annual Report filed on Form 10-K for the year ended December 31, 2011.

We operate and report financial information using a 52-week fiscal year ending December 31. The data periods contained within our Quarterly Reports on Form 10-Q reflect the results of operations for the 13-week, 26-week and 39-week periods which generally end on the Sunday nearest the calendar quarter-end date. Operating results for the three months ended April 1, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

*Reclassifications*

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

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

The significant accounting policies used in preparation of these condensed consolidated financial statements for the three months ended April 1, 2012 are consistent with those discussed in Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011. There were no new accounting pronouncements adopted during the three months ended April 1, 2012 that had a material impact on our financial statements.

**(3) Share-Based Compensation**

As of April 1, 2012, we have one share-based compensation plan. The Amended and Restated 1999 Stock Option and Incentive Plan (the 1999 Stock Plan ), which was adopted by our Board of Directors and approved by our shareholders, permits the granting of the following types of awards to our officers, other employees and non-employee directors: incentive stock options; non-qualified stock options; deferred stock awards; restricted stock awards; unrestricted stock awards; performance share awards; cash-based awards; stock appreciation rights and dividend equivalent rights. The 1999 Stock Plan provides for the issuance of up to 3,000,000 shares of common stock (subject to adjustment for stock splits and similar events). New options granted under the 1999 Stock Plan could have varying vesting provisions and exercise periods. Options granted vest in periods ranging from one to five years and expire ten years after the grant date. Restricted stock units granted generally vest from three to six years. Vested restricted stock units will be settled in shares of our common stock. As of April 1, 2012, there were 211,256 stock options and 354,065 restricted stock units outstanding. In addition, there were 378,301 shares available for grant under the 1999 Stock Plan as of April 1, 2012. As of April 1, 2012, there were 19,093 outstanding restricted stock units that contain rights to nonforfeitable dividend equivalents and are considered participating securities that are included in our computation of basic and fully diluted earnings per share. There is no difference in the earnings per share amounts between the two class method and the treasury stock method, which is why we continue to use the treasury stock method.

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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. In the first quarter of 2012, we granted 68,943 stock options.

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The fair value of stock options granted during the three months ended April 1, 2012 of \$14.16 was estimated using the following weighted-average assumptions:

Risk-free interest rate	1.0%
Expected life (years)	5.8
Expected stock volatility	47.9%
Expected dividend yield	0.5%

We account for Restricted Stock Unit ( RSU ) Awards by expensing the weighted average fair value to selling, general and administrative expenses ratably over vesting periods ranging from three to six years. During the three months ended April 1, 2012 and April 3, 2011, we granted 121,725 and 63,372 RSU Awards with approximate fair values of \$33.58 and \$39.00 per RSU Award, respectively.

The CIRCOR Management Stock Purchase Plan, which is a component of the 1999 Stock Plan, provides that eligible employees may elect to receive restricted stock units in lieu of all or a portion of their pre-tax annual incentive bonus and, in some cases, make after-tax contributions in exchange for restricted stock units ( RSU MSPs ). In addition, non-employee directors may elect to receive restricted stock units in lieu of all or a portion of their annual directors' fees. Each RSU MSP represents a right to receive one share of our common stock after a three-year vesting period. RSU MSPs are granted at a discount of 33% from the fair market value of the shares of our common stock on the date of grant. This discount is amortized as compensation expense, to selling, general and administrative expenses, over a four year period. A total of 34,534 and 43,734 RSUs with per unit discount amounts representing fair values of \$10.81 and \$12.87 were granted under the CIRCOR Management Stock Purchase Plan during the three months ended April 1, 2012 and April 3, 2011, respectively.

Compensation expense related to our share-based plans for the three month periods ended April 1, 2012, and April 3, 2011 was \$1.4 million and \$1.1 million, respectively, and was recorded as selling, general and administrative expense. As of April 1, 2012, there was \$10.4 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 2.9 years.

A summary of the status of all stock options granted to employees and non-employee directors as of April 1, 2012 and changes during the three month period then ended is presented in the table below (Options in thousands):

	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	145	\$ 29.20
Granted	69	32.76
Exercised	(3)	23.92
Forfeited	0	N/A
Options outstanding at end of period	211	\$ 30.44
Options exercisable at end of period	65	\$ 21.86

The weighted average contractual term for stock options outstanding and options exercisable as of April 1, 2012 was 7.0 years and 2.1 years, respectively. The aggregate intrinsic value of stock options exercised during the three months ended April 1, 2012 was \$0.1 million and the aggregate intrinsic value of stock options outstanding and options exercisable as of April 1, 2012 was \$0.9 million and \$0.7 million, respectively.

A summary of the status of all RSU Awards granted to employees and non-employee directors as of April 1, 2012 and changes during the three month period then ended is presented in the table below (RSUs in thousands):

RSUs	Weighted Average Grant Date Fair Value
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RSU Awards outstanding at beginning of period	234	\$	33.52
Granted	122		33.58
Settled	(92)		31.74
Cancelled	(5)		34.66
RSU Awards outstanding at end of period	259	\$	34.16

RSU Awards vested and deferred at end of period	9	\$	32.71
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The aggregate intrinsic value of RSU Awards settled during the three months ended April 1, 2012 was \$3.1 million and the aggregate intrinsic value of RSU Awards outstanding and RSU Awards vested and deferred as of April 1, 2012 was \$8.6 million and \$0.3 million, respectively.

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A summary of the status of all RSU MSPs granted to employees and non-employee directors as of April 1, 2012 and changes during the three month period then ended is presented in the table below (RSUs in thousands):

	RSUs	Weighted Average Exercise Price
RSU MSPs outstanding at beginning of period	152	\$ 18.14
Granted	34	21.95
Settled	(91)	14.89
Cancelled	0	20.71
RSU MSPs outstanding at end of period	95	\$ 22.63

RSU MSPs vested and deferred at end of period	10	\$ 17.15
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The aggregate intrinsic value of RSU MSPs settled during the three months ended April 1, 2012 was \$1.7 million and the aggregate intrinsic value of RSU MSPs outstanding and RSU MSPs vested and deferred as of April 1, 2012 was \$1.0 million and \$0.2 million, respectively.

**(4) Inventories**

Inventories consist of the following (In thousands):

	April 1, 2012	December 31, 2011
Raw materials	\$ 60,494	\$ 57,755
Work in process	96,865	96,678
Finished goods	50,766	49,344
	\$ 208,125	\$ 203,777

**(5) Goodwill and Intangible Assets**

The following table shows goodwill, by segment, as of April 1, 2012 (In thousands):

	Energy	Aerospace	Flow Technologies	Consolidated Total
Goodwill as of December 31, 2011	\$ 51,894	\$ 22,091	\$ 3,844	\$ 77,829
Currency translation adjustments	670	46	131	847
Goodwill as of April 1, 2012	\$ 52,564	\$ 22,137	\$ 3,975	\$ 78,676

The table below presents gross intangible assets and the related accumulated amortization as of April 1, 2012 (In thousands):

	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 6,094	\$ (5,582)
Trademarks and trade names	29,941	0

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Land use rights	462	(73)
Customer relationships	38,810	(15,063)
Backlog	1,540	(1,362)
Other	7,160	(3,739)
<b>Total</b>	<b>\$ 84,007</b>	<b>\$ (25,819)</b>

Net carrying value of intangible assets \$ 58,188

The table below presents estimated remaining amortization expense for intangible assets recorded as of April 1, 2012 (In thousands):

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>After 2016</b>
Estimated amortization expense	\$ 2,803	\$ 3,722	\$ 3,593	\$ 3,569	\$ 3,239	\$ 11,321

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

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

	Energy	Aerospace	Flow Technologies	Corporate /Eliminations	Consolidated Total
<b>Three Months Ended April 1, 2012</b>					
Net revenues	\$ 109,264	\$ 38,085	\$ 66,931	\$ 0	\$ 214,280
Inter-segment revenues	396	26	192	(614)	0
Operating income (loss)	8,928	4,124	7,587	(6,939)	13,700
Interest income					(83)
Interest expense					1,164
Other income, net					138
Income before income taxes					12,481
Identifiable assets	379,950	195,823	193,468	(48,708)	720,533
Capital expenditures	730	882	2,330	180	4,122
Depreciation and amortization	1,987	1,249	1,431	305	4,972
<b>Three Months Ended April 3, 2011</b>					
Net revenues	\$ 99,170	\$ 32,110	\$ 72,090	\$ 0	\$ 203,370
Inter-segment revenues	306	1	92	(399)	0
Operating income (loss)	6,393	3,727	9,116	(6,464)	12,772
Interest income					(43)
Interest expense					816
Other expense, net					915
Income before income taxes					11,084
Identifiable assets	329,427	191,610	188,850	(43,179)	666,708
Capital expenditures	1,058	544	800	291	2,693
Depreciation and amortization	2,000	1,343	1,501	149	4,993

Each reporting segment is individually managed and has separate financial results that are reviewed by our chief operating decision-maker. Each segment contains related products and services particular to that segment. For further discussion of the products included in each segment refer to Note (1) of the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

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

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



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The total assets for each operating segment have been reported as the Identifiable Assets for that segment, including inter-segment intercompany receivables, payables and investments in other CIRCOR companies. Identifiable assets reported in Corporate / Eliminations include both corporate assets, such as cash, deferred taxes, prepaid and other assets, fixed assets, as well as the elimination of all inter-segment intercompany assets. The elimination of intercompany assets results in negative amounts reported in Corporate / Eliminations for Identifiable Assets for the periods ended April 1, 2012 and April 3, 2011. Corporate Identifiable Assets after elimination of intercompany assets were \$42.5 million and \$37.0 million as of April 1, 2012 and April 3, 2011, respectively.

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

	April 1, 2012		Three Months Ended		April 3, 2011	
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS	\$ 8,585	17,315	\$ 0.50	\$ 7,906	17,163	\$ 0.46
Dilutive securities, common stock options	0	75	(0.01)	0	215	(0.01)
Diluted EPS	\$ 8,585	17,390	\$ 0.49	\$ 7,906	17,378	\$ 0.45

There were 202,513 and 93,514 anti-dilutive stock options and RSUs for the three months ended April 1, 2012 and April 3, 2011, respectively.

**(8) Financial Instruments***Fair Value*

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

*Foreign Currency Exchange Risk*

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

As of April 1, 2012, we had eleven forward contracts with total values as follows (in thousands):

Currency	Number	Contract Amount
U.S. Dollar/GBP	3	1,079 U.S. Dollars
Euro/GBP	1	279 Euros
Canadian Dollar/Euro		