

CIRCOR INTERNATIONAL INC
Form 10-Q
April 28, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 5, 2015.

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

For the transition period from _____ to _____
Commission File Number 001-14962

CIRCOR INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

01803-4238
(Zip 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

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As of April 24, 2015, there were 17,147,857 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

CIRCOR INTERNATIONAL, INC.
TABLE OF CONTENTS

| | Page |
|--|-----------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | <u>3</u> |
| Condensed Consolidated Balance Sheets as of April 5, 2015 (Unaudited) and December 31, 2014 | <u>3</u> |
| Condensed Consolidated Statements of Income for the Three Months Ended April 5, 2015 and March 30, 2014 (Unaudited) | <u>4</u> |
| Condensed Consolidated Statements of Comprehensive (Loss) Income for the Three Months Ended April 5, 2015 and March 30, 2014 (Unaudited) | <u>5</u> |
| Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 5, 2015 and March 30, 2014 (Unaudited) | <u>6</u> |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | <u>7</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>17</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>22</u> |
| <u>Item 4. Controls and Procedures</u> | <u>22</u> |
| <u>PART II. OTHER INFORMATION</u> | <u>23</u> |
| <u>Item 1. Legal Proceedings</u> | <u>23</u> |
| <u>Item 1A. Risk Factors</u> | <u>23</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>23</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>23</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>24</u> |
| <u>Item 5. Other Information</u> | <u>24</u> |
| <u>Item 6. Exhibits</u> | <u>24</u> |
| <u>Signatures</u> | <u>25</u> |

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

| | April 5, 2015 (Unaudited) | December 31, 2014 |
|--|------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$103,883 | \$121,286 |
| Short-term investments | 80 | 86 |
| Trade accounts receivable, less allowance for doubtful accounts of \$9,122 and \$9,536, respectively | 140,752 | 156,738 |
| Inventories | 194,624 | 183,434 |
| Prepaid expenses and other current assets | 21,731 | 21,626 |
| Deferred income tax asset | 22,184 | 22,861 |
| Total Current Assets | 483,254 | 506,031 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 90,045 | 96,212 |
| OTHER ASSETS: | | |
| Goodwill | 69,832 | 72,430 |
| Intangibles, net | 24,797 | 26,887 |
| Deferred income tax asset | 17,206 | 19,048 |
| Other assets | 3,557 | 4,114 |
| TOTAL ASSETS | \$688,691 | \$724,722 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$77,893 | \$87,112 |
| Accrued expenses and other current liabilities | 53,443 | 65,223 |
| Accrued compensation and benefits | 18,166 | 24,728 |
| Notes payable and current portion of long-term debt | 8,481 | 8,423 |
| Total Current Liabilities | 157,983 | 185,486 |
| LONG-TERM DEBT, NET OF CURRENT PORTION | 29,065 | 5,261 |
| DEFERRED INCOME TAXES | 7,107 | 7,771 |
| OTHER NON-CURRENT LIABILITIES | 31,433 | 32,111 |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, \$0.01 par value; 29,000,000 shares authorized; 17,479,481 and 17,681,955 shares issued and outstanding at April 5, 2015 and December 31, 2014, respectively | 177 | 177 |
| Additional paid-in capital | 279,405 | 277,227 |
| Retained earnings | 259,599 | 250,635 |
| Common treasury stock, at cost (301,647 shares at April 5, 2015) | (16,682) |) |
| Accumulated other comprehensive loss, net of taxes | (59,396) |) (33,946) |
| Total Shareholders' Equity | 463,103 | 494,093 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$688,691 | \$724,722 |

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

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

| | Three Months Ended | |
|---|--------------------|-------------------|
| | April 5, 2015 | March 30, 2014 |
| Net revenues | \$ 165,860 | \$ 211,186 |
| Cost of revenues | 113,211 | 146,548 |
| GROSS PROFIT | 52,649 | 64,638 |
| Selling, general and administrative expenses | 38,088 | 44,888 |
| Special charges (recoveries), net | 1,511 | (1,157) |
| OPERATING INCOME | 13,050 | 20,907 |
| Other expense (income): | | |
| Interest expense, net | 640 | 918 |
| Other (income), net | (506) | (468) |
| TOTAL OTHER EXPENSE, NET | 134 | 450 |
| INCOME BEFORE INCOME TAXES | 12,916 | 20,457 |
| Provision for income taxes | 3,284 | 5,825 |
| NET INCOME | \$9,632 | \$14,632 |
| Earnings per common share: | | |
| Basic | \$0.55 | \$0.83 |
| Diluted | \$0.54 | \$0.82 |
| Weighted average number of common shares outstanding: | | |
| Basic | 17,662 | 17,620 |
| Diluted | 17,712 | 17,741 |
| Dividends paid per common share | \$0.0375 | \$0.0375 |

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

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

| | Three Months Ended | |
|--|--------------------|-----------------|
| | April 5, 2015 | March 30, 2014 |
| Net income | \$9,632 | \$14,632 |
| Other comprehensive (loss) income, net of tax: | | |
| Foreign currency translation adjustments | (25,779) | (715) |
| Other comprehensive (loss) income | (25,779) | (715) |
| COMPREHENSIVE (LOSS) INCOME | \$(16,147) | \$13,917 |

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

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

| | Three Months Ended | |
|---|--------------------|-------------------|
| | April 5, 2015 | March 30, 2014 |
| OPERATING ACTIVITIES | | |
| Net income | \$9,632 | \$14,632 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation | 3,521 | 4,069 |
| Amortization | 710 | 786 |
| Compensation expense of share-based plans | 2,222 | 1,830 |
| Tax effect of share-based plan compensation | (289) | (571) |
| Loss on sale of property, plant and equipment | 46 | 34 |
| (Gain) on sale of business | (972) | — |
| Change in operating assets and liabilities: | | |
| Trade accounts receivable, net | 7,480 | (9,952) |
| Inventories | (18,697) | 234 |
| Prepaid expenses and other assets | (4,787) | (859) |
| Accounts payable, accrued expenses and other liabilities | (15,298) | 6,854 |
| Net cash (used in) provided by operating activities | (16,432) | 17,057 |
| INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (1,983) | (2,670) |
| Proceeds from the sale of property, plant and equipment | — | 13 |
| Proceeds from the sale of affiliate | 2,759 | — |
| Net cash provided by (used in) investing activities | 776 | (2,657) |
| FINANCING ACTIVITIES | | |
| Proceeds from long-term debt | 46,903 | 48,029 |
| Payments of long-term debt | (21,540) | (41,781) |
| Dividends paid | (672) | (670) |
| Proceeds from the exercise of stock options | 38 | 192 |
| Tax effect of share-based plan compensation | 289 | 571 |
| Purchases of common stock | (16,682) | — |
| Net cash provided by financing activities | 8,336 | 6,341 |
| Effect of exchange rate changes on cash and cash equivalents | (10,083) | (824) |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (17,403) | 19,917 |
| Cash and cash equivalents at beginning of period | 121,286 | 102,180 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$103,883 | \$122,097 |
| Supplemental Cash Flow Information: | | |
| Cash paid during the period presented for: | | |
| Income taxes | \$2,216 | \$2,913 |
| Interest | \$394 | \$472 |

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

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

(1) Basis of Presentation

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

The consolidated balance sheet at December 31, 2014 is as reported in our audited consolidated financial statements as of that date. Our accounting policies are described in the notes to our December 31, 2014 consolidated financial statements, which were included in our Annual Report filed on Form 10-K. We recommend that the financial statements included in our Quarterly Report on Form 10-Q be read in conjunction with the financial statements and notes included in our Annual Report filed on Form 10-K for the year ended December 31, 2014.

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 5, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

(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 5, 2015 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, 2014.

There were no additional new accounting pronouncements adopted during the three months ended April 5, 2015.

(3) Share-Based Compensation

As of April 5, 2015, we have two share-based compensation plans. The 2014 Stock Option and Incentive Plan (the "2014 Plan") was adopted by our Board of Directors on February 12, 2014 and approved by our shareholders at the Company's annual meeting held on April 30, 2014. As of April 30, 2014, no new awards will be granted under the existing Amended and Restated 1999 Stock Option and Incentive Plan (the "1999 Plan"). As a result, any shares subject to outstanding awards under the 1999 Plan that expire, are canceled or otherwise terminate, or are withheld to satisfy tax withholding obligations will not be available for award grant purposes under the 2014 Plan. Both plans permit 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; cash-based awards; stock appreciation rights ("SARs") and dividend equivalent rights. The 2014 Plan provides for the issuance of up to 1,700,000 shares of common stock (subject to adjustment for stock splits

and similar events). Under the 2014 Plan, shares issued for awards other than stock options or SARs count against the aggregate share limit as 1.9 shares for every share actually issued. New options granted under the 2014 Plan could have varying vesting provisions and exercise periods. Options granted under the 1999 Plan vest in periods ranging from one year to five years and expire either seven years or ten years after the grant date. Restricted stock units granted under the 1999 Plan generally vest within three years. Vested restricted stock units will be settled in shares of our common stock.

As of April 5, 2015, there were 597,656 stock options (including the CEO and CFO stock option awards noted below) and 227,223 restricted stock units outstanding of which 9,454 restricted stock units were granted in 2013 outside the plan as a new hire inducement award. In addition, there were 1,396,157 shares available for grant under the 2014 Plan as of April 5, 2015. As of April 5, 2015, there were 10,000 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 ("EPS"). 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.

The Black-Scholes option pricing model was used to estimate the fair value of each stock option grant at the date of grant excluding the 2013 and 2014 CEO and CFO stock option awards which were valued using the Monte Carlo option pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield and employee exercise behavior. Expected volatilities utilized in the model are based on the historic volatility of the Company's stock price. The risk-free interest rate is derived from the U.S. Treasury Yield curve in effect at the time of the grant.

During the three months ended April 5, 2015, we granted 118,992 stock options compared with 164,503 stock options granted during the first three months of 2014.

The average fair value of stock options granted during the first three months of 2015 and 2014 was \$17.88 and \$26.32, respectively, and was estimated using the following weighted-average assumptions:

| | | | |
|---------------------------|------|--------|---|
| | 2015 | 2014 | |
| Risk-free interest rate | 1.4 | % 1.8 | % |
| Expected life (years) | 4.5 | 3.7 | |
| Expected stock volatility | 40.4 | % 41.4 | % |
| Expected dividend yield | 0.3 | % 0.2 | % |

For additional information regarding the historical issuance of stock options including awards to our CEO and CFO, refer to our Form 10-K filed on February 18, 2015.

We account for Restricted Stock Unit Awards ("RSU Awards") by expensing the weighted average fair value to selling, general and administrative expenses ratably over vesting periods generally ranging up to three years. During the three months ended April 5, 2015 and March 30, 2014, we granted 54,702 and 31,954 RSU Awards with approximate fair values of \$51.92 and \$71.75 per RSU Award, respectively. During the first three months of 2015 and 2014, we granted performance-based RSUs as part of the overall mix of RSU Awards. These performance-based RSUs include metrics for achieving Return on Invested Capital and Adjusted Operating Margin with target payouts ranging from 0% to 200%. Of the 54,702 RSUs granted during the three months ended April 5, 2015, 26,094 are performance-based RSU awards. This compares to 11,881 performance-based RSU awards granted during the three months ended March 30, 2014.

The CIRCOR Management Stock Purchase Plan, which is a component of both the 2014 Plan and the 1999 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 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. RSU MSPs totaling 38,965 and 32,752 with per unit discount amounts representing fair values of \$17.11 and \$23.61 were granted under the CIRCOR Management Stock Purchase Plan during the three

months ended April 5, 2015 and March 30, 2014, respectively.

Compensation expense related to our share-based plans for the three month periods ended April 5, 2015 and March 30, 2014 was \$2.2 million and \$1.8 million, respectively. For the three month period ended April 5, 2015, \$1.8 million compensation expense was recorded as selling, general and administrative expense. In addition, \$0.4 million was recorded as a special charge related to the retirement of one of our executive officers. For the three month period ended March 30, 2014, \$1.8 million was recorded as selling, general and administrative expense. As of April 5, 2015, there was \$12.9 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 2.1 years.

The weighted average contractual term for stock options outstanding and options exercisable as of April 5, 2015 was 7.7 years and 6.8 years, respectively. The aggregate intrinsic value of stock options exercised during the three months ended April 5, 2015 was less than \$0.1 million and the aggregate intrinsic value of stock options outstanding and options exercisable as of April 5, 2015 was \$4.2 million and \$1.8 million, respectively.

The aggregate intrinsic value of RSU Awards settled during the three months ended April 5, 2015 was \$1.9 million and the aggregate intrinsic value of RSU Awards outstanding and RSU Awards vested and deferred as of April 5, 2015 was \$7.5 million and less than \$0.1 million, respectively.

The aggregate intrinsic value of RSU MSPs settled during the three months ended April 5, 2015 was \$0.4 million and the aggregate intrinsic value of RSU MSPs outstanding and RSU MSPs vested and deferred as of April 5, 2015 was \$1.8 million and none, respectively.

We also grant Cash Settled Stock Unit Awards to certain international employee participants. These Cash Settled Stock Unit Awards typically cliff-vest in three years and are settled in cash based on the Company's closing stock price at the time of vesting. As of April 5, 2015, there were 33,522 Cash Settled Stock Unit Awards outstanding compared to 42,365 as of March 30, 2014. During the three months ended April 5, 2015, the aggregate cash used to settle Cash Settled Stock Unit Awards was \$0.5 million. As of April 5, 2015, we had \$0.8 million of accrued expenses in current liabilities associated with these Cash Settled Stock Unit Awards compared with \$1.0 million as of March 30, 2014. Cash Settled Stock Unit Awards related compensation costs for the three month periods ended April 5, 2015 and March 30, 2014 was \$0.2 million and \$0.1 million, respectively, and was recorded as selling, general, and administrative expense.

(4) Inventories

Inventories consist of the following (in thousands):

| | April 5, 2015 | December 31, 2014 |
|-------------------|---------------|-------------------|
| Raw materials | \$57,125 | \$57,505 |
| Work in process | 84,835 | 82,130 |
| Finished goods | 52,664 | 43,799 |
| Total inventories | \$194,624 | \$183,434 |

(5) Goodwill and Intangible Assets

The following table shows goodwill by segment as of April 5, 2015 (in thousands):

| | Energy | Aerospace & Defense | Consolidated Total |
|----------------------------------|----------|---------------------|--------------------|
| Goodwill as of December 31, 2014 | \$49,995 | \$22,435 | \$ 72,430 |
| Currency translation adjustments | (2,428) | (170) | (2,598) |
| Goodwill as of April 5, 2015 | \$47,567 | \$22,265 | \$ 69,832 |

The table below presents gross intangible assets and the related accumulated amortization as of April 5, 2015 (in thousands):

| | Gross Carrying Amount | Accumulated Amortization |
|--|-----------------------|--------------------------|
| Patents | \$6,070 | \$(5,745) |
| Non-amortized intangibles (primarily trademarks and trade names) | 11,414 | — |

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| | | | |
|---|----------|-----------|---|
| Customer relationships | 29,574 | (18,244 |) |
| Backlog | 1,041 | (1,041 |) |
| Other | 6,657 | (4,929 |) |
| Total | \$54,756 | \$(29,959 |) |
| Net carrying value of intangible assets | \$24,797 | | |

9

The table below presents estimated remaining amortization expense for intangible assets recorded as of April 5, 2015 (in thousands):

| | 2015 | 2016 | 2017 | 2018 | 2019 | After 2019 |
|--------------------------------|---------|---------|---------|---------|---------|---------------|
| Estimated amortization expense | \$2,093 | \$2,539 | \$2,405 | \$2,175 | \$1,836 | \$2,337 |

(6) Segment Information

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

| | Energy | Aerospace & Defense | Corporate / Eliminations | Consolidated Total |
|-----------------------------------|-----------|------------------------|-----------------------------|-----------------------|
| Three Months Ended April 5, 2015 | | | | |
| Net revenues | \$127,586 | \$38,274 | \$— | \$165,860 |
| Inter-segment revenues | 250 | 82 | (332) | — |
| Operating income (loss) | 16,652 | 2,852 | (6,454) | 13,050 |
| Interest expense, net | | | | 640 |
| Other (income) expense, net | | | | (506) |
| Income before income taxes | | | | \$12,916 |
| Identifiable assets | 593,027 | 189,850 | (94,186) | 688,691 |
| Capital expenditures | 1,316 | 475 | 192 | 1,983 |
| Depreciation and amortization | 2,432 | 1,531 | 268 | 4,231 |
| Three Months Ended March 30, 2014 | | | | |
| Net revenues | \$162,587 | \$48,599 | \$— | \$211,186 |
| Inter-segment revenues | 206 | 79 | (285) | — |
| Operating income (loss) | 21,774 | 6,570 | (7,437) | 20,907 |
| Interest expense, net | | | | 918 |
| Other (income) expense, net | | | | (468) |
| Income before income taxes | | | | \$20,457 |
| Identifiable assets | 600,637 | 220,402 | (67,082) | 753,957 |
| Capital expenditures | 1,773 | 649 | 248 | 2,670 |
| Depreciation and amortization | 2,816 | 1,727 | 312 | 4,855 |

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, 2014.

In calculating operating income for each reporting segment, certain 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; Board of Director compensation; corporate development costs (relating to mergers and acquisitions); human resource development and benefit plan administration expenses; legal, accounting and other professional and consulting fees; facilities, equipment and maintenance costs; and travel and various other administrative costs. The above costs are incurred in the course of furthering the business prospects of the Company and relate to activities such

as: implementing strategic business growth opportunities; corporate governance; risk management; treasury; investor relations and shareholder services; regulatory compliance; and stock transfer agent costs.

The total assets for each operating segment have been reported as the Identifiable Assets for that segment, including inter-segment intercompany receivables, payables and investments in other CIRCOR businesses. Identifiable assets reported in Corporate / Eliminations include both corporate assets, such as cash, deferred taxes, prepaid and other assets, fixed assets, as well as the elimination of all inter-segment intercompany assets. The elimination of intercompany assets results in negative amounts reported in Corporate / Eliminations for Identifiable Assets for the periods ended April 5, 2015 and March 30, 2014. Corporate Identifiable Assets after elimination of intercompany assets were \$39.7 million and \$46.1 million as of April 5, 2015 and March 30, 2014, respectively.

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

| | Three Months Ended | | | March 30, 2014 | | |
|---|--------------------|--------|-----------|----------------|--------|-----------|
| | April 5, 2015 | | | | | |
| | Net | Shares | Per Share | Net | Shares | Per Share |
| | Income | | Amount | Income | | Amount |
| Basic EPS | \$9,632 | 17,662 | \$0.55 | \$14,632 | 17,620 | \$0.83 |
| Dilutive securities, common stock options | — | 50 | (0.01) | — | 121 | (0.01) |
| Diluted EPS | \$9,632 | 17,712 | \$0.54 | \$14,632 | 17,741 | \$0.82 |

There were 362,261 and 152,599 anti-dilutive stock options, RSU Awards, and RSU MSPs outstanding for the three months ended April 5, 2015 and March 30, 2014, respectively.

(8) Financial Instruments

Fair Value

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

Foreign Currency Exchange Risk

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

As of April 5, 2015, we had seven forward contracts: four U.S. Dollar/Euro contracts with a total value of \$10.1 million and three Brazilian Real/Euro contracts with a total value of less than \$0.1 million. This compares to six forward contracts as of December 31, 2014. The fair value asset of the derivative forward contracts as of April 5, 2015 was less than 0.1 million and was included in prepaid expenses and other current assets on our condensed consolidated balance sheet. This compares to a fair value liability of less than \$0.6 million that was included in accrued expenses and other current liabilities on our consolidated balance sheet as of December 31, 2014. The unrealized foreign exchange loss for each of the three month periods ended April 5, 2015 and March 30, 2014 was less than \$0.5 million, respectively. Unrealized foreign exchange gains (losses) are included in other (income) expense, net in our condensed consolidated statements of income.

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

(9) Guarantees and Indemnification Obligations

As permitted under Delaware law, we have agreements whereby we indemnify certain of our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. However, we have directors' and officers' liability insurance policies that limit our exposure for events covered under the policies and should enable us to recover a portion of any future amounts paid. As a result of the coverage under these insurance policies, we believe the estimated fair value of these indemnification agreements based on Level 3 criteria as described under ASC Topic 820 is minimal and, therefore, we have no liabilities recorded from those agreements as of April 5, 2015.

We record provisions for the estimated cost of product warranties, primarily from historical information, at the time product revenue is recognized. We also record provisions with respect to any significant individual warranty issues as they arise. 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 three months ended April 5, 2015 (in thousands):

| | | |
|-------------------------------------|---------|---|
| Balance beginning December 31, 2014 | \$4,213 | |
| Provisions | 911 | |
| Claims settled | (634) |) |
| Currency translation adjustment | (228) |) |
| Balance ending April 5, 2015 | \$4,262 | |

Warranty obligations increased \$0.1 million from \$4.2 million as of December 31, 2014 to \$4.3 million as of April 5, 2015 primarily related to claim provisions within our Energy segment.

(10) Contingencies and Commitments

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.

Asbestos-related product liability claims continue to be filed against two of our subsidiaries Spence Engineering Company, Inc. (“Spence”), the stock of which we acquired in 1984; and CIRCOR Instrumentation Technologies, Inc. (f/k/a Hoke Incorporated) (“Hoke”), the stock of which we acquired in 1998. Due to the nature of the products supplied by these entities, the markets they serve and our historical experience in resolving these claims, we do not believe that these asbestos-related claims will have a material adverse effect on the financial condition, results of operations or liquidity of Spence or Hoke, or our financial condition, consolidated results of operations or liquidity of the Company.

In February 2015, we agreed to resolve a longstanding customer dispute regarding our design and fabrication of cable protection systems for an off-shore windfarm ("Customer Settlement"), a product line in which we no longer are involved. The resolution of this dispute was recorded as a Special Charge during the fourth quarter of 2014 in the amount of \$6.2 million. The final settlement is still pending as of the date of our first quarter 2015 filing. The amounts recorded during the fourth quarter of 2014 continue to reflect our best estimate of probable resolution.

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 \$49.8 million at April 5, 2015. Our historical experience with these types of instruments has been good and no claims have been paid in the current or past five fiscal years. We believe that the likelihood of demand for a significant payment relating to the outstanding instruments is remote. These instruments generally have expiration dates ranging from less than 1 month to 5 years from April 5, 2015.

The following table contains information related to standby letters of credit instruments outstanding as of April 5, 2015 (in thousands):

| Term Remaining | Maximum Potential Future Payments |
|------------------------|--------------------------------------|
| 0–12 months | \$ 34,544 |
| Greater than 12 months | 15,216 |
| Total | \$ 49,760 |

(11) Defined Pension Benefit Plans

We maintain two pension benefit plans, a qualified noncontributory defined benefit plan and a nonqualified, noncontributory defined benefit supplemental plan that provides benefits to certain retired highly compensated officers and employees. To date, the supplemental plan remains an unfunded plan. These plans include significant pension benefit obligations which are calculated based on actuarial valuations. Key assumptions are made in determining these obligations and related expenses, including expected rates of return on plan assets and discount rates. Benefits are based primarily on years of service and employees' compensation.

As of July 1, 2006, in connection with a revision to our retirement plan, we froze the pension benefits of our qualified noncontributory plan participants. Under the revised plan, such participants generally do not accrue any additional benefits under the defined benefit plan after July 1, 2006.

During the three months ended April 5, 2015, we made cash contributions of \$0.4 million to our qualified defined benefit pension plan. Additionally, substantially all of our U.S. employees are eligible to participate in a 401(k) savings plan. Under this plan, we make a core contribution and match a specified percentage of employee contributions, subject to certain limitations.

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

| | Three Months Ended | |
|--|--------------------|-------------------|
| | April 5, 2015 | March 30, 2014 |
| Interest cost on benefits obligation | 548 | 545 |
| Estimated return on assets | (723 |) (697 |
| Loss amortization | 210 | 127 |
| Net periodic cost of defined pension benefit plans | \$35 | \$(25 |

(12) Income Taxes

As required by ASC 740, Income Taxes, as of April 5, 2015 and December 31, 2014, we had \$1.8 million and \$2.0 million of unrecognized tax benefits, respectively, of which \$1.5 million and \$1.5 million, respectively, would affect our effective tax rate if recognized in any future period.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of April 5, 2015, we had approximately \$0.7 million of accrued interest related to uncertain tax positions.

The Company files income tax returns in the U.S. federal, state and local jurisdictions and in foreign jurisdictions. The

Company is no longer subject to examination by the Internal Revenue Service (the "IRS") for years prior to 2012 and is no longer subject to examination by the tax authorities in foreign and state jurisdictions prior to 2006. The Company is currently under

13

examination for income tax filings in various foreign jurisdictions, including Italy where we have received a tax assessment regarding withholding taxes on certain intercompany dividends paid in 2009. We disagree with the tax assessment and, after taking appropriate advice, we believe that we would prevail in court, if necessary. However, in Q4 2014, we accrued \$0.9 million as a tax reserve equal to the amount we would be willing to settle in order to avoid costs of litigation.

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 IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

The Company has a net domestic deferred income tax asset and a net foreign deferred tax asset. With regard to deferred income tax assets, we maintained a total valuation allowance of \$10.6 million at April 5, 2015 and \$9.4 million at December 31, 2014 due to uncertainties related to our ability to utilize certain of these assets, primarily consisting of certain foreign tax credits, foreign and state net operating losses and state tax credits carried forward. The valuation allowance is based on estimates of taxable income in each of the jurisdictions in which we operate and the period over which our deferred tax assets will be recoverable. If market conditions improve and future results of operations exceed our current expectations, our existing tax valuation allowances may be adjusted, resulting in future tax benefits. Alternatively, if market conditions deteriorate or future results of operations are less than expected, future assessments may result in a determination that some or all of the deferred tax assets are not realizable. Consequently, we may need to establish additional tax valuation allowances for all or a portion of the gross deferred tax assets, which may have a material adverse effect on our business, results of operations and financial condition. The Company has had a history of domestic and foreign taxable income, is able to avail itself of federal tax carryback provisions, has future taxable temporary differences and projects future domestic and foreign taxable income. We believe that after considering all of the available objective evidence, it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining net deferred income tax asset.

(13) Special & Restructuring Charges / (Recoveries)

Background

On August 1, 2013 and October 31, 2013, we announced restructuring actions associated with our Energy and Aerospace & Defense segments under which we have simplified the manner in which we manage our businesses ("2013 Announced Restructuring"). Under these restructurings, we consolidated facilities, shifted expenses to lower cost regions, restructured certain non-strategic product lines, and also consolidated our group structure from three groups to two, reducing management layers and administrative expenses.

On January 24, 2014, we reached a settlement on the T.M.W. Corporation ("TMW") arbitration where it was agreed that TMW would waive all rights to amounts due from us under a contingent consideration promissory note established at the time of acquisition, resulting in a special gain of approximately \$2.2 million during the first quarter of 2014.

On March 28, 2014, we entered into a settlement agreement for \$1.5 million with Watts Water Technologies, Inc ("Watts"). Accordingly, we recorded a \$0.3 million special charge in the quarter, net of amounts previously accrued.

On April 22, 2014, we announced additional restructuring actions ("2014 Announced Restructurings"), under which we are continuing to simplify our businesses. Under this restructuring, we are reducing certain general and administrative expenses, including the reduction of certain management layers, and closing or consolidating a number of smaller facilities. The savings from these restructuring actions will be utilized for growth investments.

On January 6, 2015, we announced the divestiture of two of our non-core businesses ("Divestitures") as part of our simplification strategy. During the fourth quarter of 2014, we recorded \$3.4 million of special charges associated with expected losses and expenses related to these divestitures. The Energy divestiture was completed in the fourth quarter of 2014. During the first quarter of 2015, the Aerospace & Defense divestiture was completed and we recorded a special gain of \$1.0 million.

On February 18, 2015, we announced additional restructuring actions ("2015 Announced Restructurings"), under which we are continuing to simplify our businesses. Under this restructuring, we are reducing certain general, administrative and manufacturing related expenses.

During the first quarter of 2015, we recorded special charges of \$0.4 million associated with the retirement of our Energy President ("Executive retirement charges"). These charges primarily related to equity award modification charges.

On April 15, 2015, we acquired Germany-based Schroedahl, a privately-owned manufacturer of safety and control valves primarily in the power generation market. During the first quarter of 2015, we incurred \$0.5 million of special charges, primarily professional fees, associated with this acquisition. See Subsequent Events in Note 14 of the condensed consolidated financial statements for more details on the acquisition.

Inventory Restructuring

We recorded no restructuring related inventory charges during the three months ended April 5, 2015 and March 30, 2014, respectively.

Q1 2015

As of and for the three months ended April 5, 2015, we recorded \$1.5 million of non-inventory restructuring related and special charges, net of recoveries, as shown in the table below (in thousands):

| | Special Charges / (Recoveries) | | | |
|---|--|------------------------|-----------|---------|
| | As of and for the three months ended April 5, 2015 | | | |
| | Energy | Aerospace & Defense | Corporate | Total |
| Accrued special and restructuring charges as of December 31, 2014 | | | | \$9,133 |
| Facility and professional fee related expenses | 19 | 13 | — | 32 |
| Employee related expenses | 324 | 1,156 | — | 1,480 |
| Total restructuring charges | \$343 | \$1,169 | \$— | \$1,512 |
| Divestitures | 26 | (977) | | (951) |
| Acquisition related charges | 530 | | | 530 |
| Executive retirement charges | | | 420 | 420 |
| Total special and restructuring charges | \$899 | \$192 | \$420 | \$1,511 |
| Special charges paid / settled | | | | \$1,700 |
| Accrued special and restructuring charges as of April 5, 2015 | | | | \$8,944 |

Q1 2014

During the three months ended March 30, 2014, we recorded \$0.8 million of non-inventory restructuring related and special charges, net of recoveries, as shown in the table below (in thousands):

| | Special Charges / (Recoveries) | | | |
|---|---|------------------------|-----------|---------|
| | As of and for the three months ended March 30, 2014 | | | |
| | Energy | Aerospace & Defense | Corporate | Total |
| Accrued special and restructuring charges as of December 31, 2013 | | | | \$4,180 |
| Facility and professional fee related expenses | 336 | 84 | — | 420 |
| Employee related expenses | 351 | 15 | — | 366 |
| Total restructuring charges | \$687 | \$99 | \$— | \$786 |
| Watts Settlement | — | — | 300 | 300 |

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| | | | | |
|--|-------|------------|-------|------------|
| TMW settlement | — | (2,243) | — | (2,243) |
| Total special and restructuring charges | \$687 | \$(2,144) | \$300 | \$(1,157) |
| Special charges paid / settled | | | | 298 |
| Accrued special and restructuring charges as of March 30, 2014 | | | | 2,725 |

15

Inception to Date

The following table (in thousands) summarizes our 2013 Announced Restructuring related special charges incurred from the third quarter of 2013 through June 29, 2014. Charges with this action were finalized in the second quarter of 2014. We do not anticipate any additional special charges to be incurred associated with the 2013 Announced Restructuring actions.

| | 2013 Announced Restructuring Charges / (Recoveries), net as of April 5, 2015 | | | |
|---|--|------------------------|-----------|---------|
| | Energy | Aerospace & Defense | Corporate | Total |
| Facility and professional fee related expenses - incurred to date | 2,117 | 473 | — | 2,590 |
| Employee related expenses - incurred to date | 2,945 | 1,519 | — | 4,464 |
| Total restructuring related special charges - incurred to date | \$5,062 | \$1,992 | \$— | \$7,054 |

The following table (in thousands) summarizes our 2014 Announced Restructuring related special charges incurred from the second quarter of 2014 through April 5, 2015:

| | 2014 Announced Restructuring Charges / (Recoveries), net as of April 5, 2015 | | | |
|---|--|------------------------|-----------|---------|
| | Energy | Aerospace & Defense | Corporate | Total |
| Facility and professional fee related expenses - incurred to date | (64) | 95 | — | 31 |
| Employee related expenses - incurred to date | 1,463 | 2,963 | 317 | 4,743 |
| Total restructuring related special charges - incurred to date | \$1,399 | \$3,058 | \$317 | \$4,774 |

The following table (in thousands) summarizes our 2015 Announced Restructuring related special charges incurred during the first quarter of 2015:

| | 2015 Announced Restructuring Charges / (Recoveries), net as of April 5, 2015 | | | |
|---|--|------------------------|-----------|-------|
| | Energy | Aerospace & Defense | Corporate | Total |
| Facility and professional fee related expenses - incurred to date | 13 | 13 | — | 26 |
| Employee related expenses - incurred to date | 327 | 558 | — | 885 |
| Total restructuring related special charges - incurred to date | \$340 | \$571 | \$— | \$911 |

Additional special charges that we expect to be recorded with the 2014 and 2015 announced restructuring actions are included in the future projection below.

Future Projection

We expect to incur additional related special charges between \$4.8 million and \$5.3 million that are primarily facility and employee related during the remainder of 2015 (between \$3.8 million and \$4.2 million for the Energy segment and between \$1.0 million and \$1.1 million for the Aerospace & Defense segment) to complete these 2014 and 2015 restructuring actions. These restructuring activities are expected to be funded with cash generated from operations.

(14) Subsequent Events

Schroedahl Acquisition:

On April 15, 2015, we acquired Germany-based Schroedahl, a privately-owned manufacturer of safety and control valves primarily in the power generation market. Founded in 1962 with customers in Asia, Europe and the Americas, Schroedahl produces custom-engineered high-pressure auto-recirculation ("ARC") and control valves for pump protection applications.

fulfill our customers' unique fluid-control application needs.

We have organized our reporting structure into two segments: Energy and Aerospace & Defense. The primary markets served by our Energy segment are oil & gas: upstream, mid-stream and downstream; as well as the global power generation market. The Aerospace & Defense segment primarily serves commercial and military aerospace end-markets as well as certain international Navy applications.

Basis of Presentation

All significant intercompany balances and transactions have been eliminated in consolidation. We monitor our business in two segments: Energy and Aerospace & Defense.

We operate and report financial information using a 52-week fiscal year ending December 31. The data periods contained within our Quarterly Reports on Form 10-Q reflect the results of operations for the 13-week, 26-week and 39-week periods which generally end on the Sunday nearest the calendar quarter-end date.

Critical Accounting Policies

The following discussion of accounting policies is intended to supplement the section “Summary of Significant Accounting Policies” presented in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014. These policies were selected because they are broadly applicable within our operating units. The expenses and accrued liabilities or allowances related to certain of these policies are initially based on our best estimates at the time of original entry in our accounting records. Adjustments are recorded when our actual experience, or new information concerning our expected experience, differs from underlying initial estimates. These adjustments could be material if our actual or expected experience were to change significantly in a short period of time. We make frequent comparisons of actual experience and expected experience in order to mitigate the likelihood of material adjustments.

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

Results of Operations for the Three Months Ended April 5, 2015 Compared to the Three Months Ended March 30, 2014 (unaudited)

The following table sets forth the consolidated results of operations, percentage of net revenues and the period-to-period percentage change in certain financial data for the three months ended April 5, 2015 and March 30, 2014:

| | Three Months Ended April 5, 2015 | | Three Months Ended March 30, 2014 | | % Change | |
|--|-------------------------------------|-------|--------------------------------------|-----------|----------|--------------|
| | (in thousands, except percentages) | | | | | |
| Net revenues | \$165,860 | 100.0 | % | \$211,186 | 100.0 | % (21.5)% |
| Cost of revenues | 113,211 | 68.3 | % | 146,548 | 69.4 | % (22.7)% |
| Gross profit | 52,649 | 31.7 | % | 64,638 | 30.6 | % (18.5)% |
| Selling, general and administrative expenses | 38,088 | 23.0 | % | 44,888 | 21.3 | % (15.1)% |
| Special charges (recoveries), net | 1,511 | 0.9 | % | (1,157) | (0.5) |)% (230.6)% |
| Operating income | 13,050 | 7.9 | % | 20,907 | 9.9 | % (37.6)% |
| Other expense (income): | | | | | | |
| Interest expense, net | 640 | 0.4 | % | 918 | 0.4 | % (30.3)% |
| Other (income), net | (506) | (0.3) |)% | (468) | (0.2) |)% 8.1 % |
| Total other expense, net | 134 | 0.1 | % | 450 | 0.2 | % (70.2)% |
| Income before income taxes | 12,916 | 7.8 | % | 20,457 | 9.7 | % (36.9)% |
| Provision for income taxes | 3,284 | 2.0 | % | 5,825 | 2.8 | % (43.6)% |
| Net income | \$9,632 | 5.8 | % | \$14,632 | 6.9 | % (34.2)% |

Net Revenues

Net revenues for the three months ended April 5, 2015 decreased by \$45.3 million, or 21%, to \$165.9 million from \$211.2 million for the three months ended March 30, 2014. The change in net revenues for the three months ended April 5, 2015 was attributable to the following:

18

| Segment | Three Months Ended | | Total Change | Divestitures | Operations | Foreign Exchange |
|---------------------|------------------------------------|-------------------|-----------------|--------------|-------------|---------------------|
| | April 5, 2015 | March 30, 2014 | | | | |
| | (in thousands, except percentages) | | | | | |
| Energy | \$127,586 | \$162,587 | \$(35,001) | \$(10,554) | \$(14,009) | \$(10,438) |
| Aerospace & Defense | 38,274 | 48,599 | (10,325) | (2,428) | (5,015) | (2,882) |
| Total | \$165,860 | \$211,186 | \$(45,326) | \$(12,982) | \$(19,024) | \$(13,320) |

The Energy segment accounted for approximately 77% of net revenues for the three months ended April 5, 2015 and March 30, 2014, with the Aerospace & Defense segment accounting for the remainder.

Energy segment net revenues decreased by \$35.0 million, or 22%, for the three months ended April 5, 2015 compared to the three months ended March 30, 2014. The decrease was primarily driven by 2014 divestitures (6%), unfavorable foreign currency impact (6%), and lower shipment volumes in both our control valves (4%) and North American short-cycle (4%) businesses. Orders decreased \$16.4 million to \$143.1 million for the three months ended April 5, 2015 compared to \$159.5 million for the same period in 2014, primarily as a result of the reduction from our December 2014 business divestiture (\$12.2 million), as well as decreases in our North American short-cycle business, offset by increases in our large international projects business. Backlog for our Energy segment has decreased \$35.5 million to \$247.6 million as of April 5, 2015 compared to \$283.1 million as of March 30, 2014, primarily due to our December 2014 divestiture (\$17.6 million) and foreign exchange remeasurement impacts (\$18.7 million).

Aerospace & Defense segment net revenues decreased by \$10.3 million, or 21%, for the three months ended April 5, 2015 compared to the same period in 2014. The decrease was primarily driven by declines in our California business (8%) primarily, relating to landing gear product line exits, UK businesses (5%) decline due to completion of certain Navy projects, unfavorable foreign currency impact (6%), and 2015 divestiture (5%). These declines were partially offset by increased revenues in our actuation (1%) and French businesses (1%). Orders decreased \$1.2 million to \$39.2 million for the three months ended April 5, 2015 compared to \$40.4 million for the same period in 2014, primarily due to the January 2015 business divestiture, partially offset by higher orders at our California actuation business. Order backlog decreased \$61.1 million to \$104.1 million as of April 5, 2015 compared to \$165.2 million as of March 30, 2014, primarily as a result of a backlog reduction as we restructured certain landing gear product lines during the three months ended June 29, 2014 and change in policy implemented during the fourth quarter of 2014.

Operating Income (Loss)

The change in operating income (loss) for the three months ended April 5, 2015 compared to the three months ended March 30, 2014 was as follows:

| Segment | Three Months Ended | | Total Change | Divestitures | Operations | Foreign Exchange | Inventory Restructuring & Special Charges / (Recoveries), net |
|---------------------|--------------------|-------------------|-----------------|--------------|------------|---------------------|--|
| | April 5, 2015 | March 30, 2014 | | | | | |
| Energy | \$16,652 | \$21,774 | \$(5,122) | \$ 199 | \$(3,653) | \$(1,456) | \$(212) |
| Aerospace & Defense | 2,852 | 6,570 | (3,718) | (33) | (1,021) | (328) | (2,336) |
| Corporate | (6,454) | (7,437) | 983 | 0 | 1,096 | 7 | (120) |
| | \$13,050 | \$20,907 | \$(7,857) | \$ 166 | \$(3,578) | \$(1,777) | \$(2,668) |

Non-inventory restructuring related and special charges, net of recoveries, for the three months ended April 5, 2015 and March 30, 2014 were as follows:

| Segment | Three Months Ended April 5, 2015 (in Thousands) | | |
|---------------------|--|-------------------------------|---|
| | Total Special Charges / (Recoveries), net | Restructuring Charges, net | Special Other (Recoveries) Charges, net |
| Energy | \$899 | \$343 | \$556 |
| Aerospace & Defense | 192 | 1,169 | (977) |
| Corporate | 420 | — | 420 |
| Total | \$1,511 | \$1,512 | \$(1) |

| Segment | Three Months Ended March 30, 2014 (in Thousands) | | |
|---------------------|---|-------------------------------|---|
| | Total Special Charges / (Recoveries), net | Restructuring Charges, net | Special Other (Recoveries) Charges, net |
| Energy | \$687 | \$687 | \$— |
| Aerospace & Defense | (2,144) | 99 | (2,243) |
| Corporate | 300 | — | 300 |
| Total | \$(1,157) | \$786 | \$(1,943) |

See "Special & Restructuring Charges / (Recoveries)" in Note 13 of the accompanying unaudited condensed consolidated financial statements for more detail on these non-inventory restructuring related and special charges for the three months ended April 5, 2015 and March 30, 2014.

Operating income decreased \$7.9 million, or 38%, to \$13.1 million for the three months ended April 5, 2015 compared to \$20.9 million for the same period in 2014.

Operating income for our Energy segment decreased \$5.1 million, or 24%, to \$16.7 million for the three months ended April 5, 2015, compared to \$21.8 million for the same period in 2014. The year over year decrease in operating income was driven by net operational decreases of \$3.7 million (17%) and unfavorable foreign exchange fluctuations of \$1.5 million (7%). Operating margins declined 30 basis points to 13.1% compared to the same period in 2014, primarily due to North American short-cycle volume decreases and unfavorable product mix within our large international projects business, offset by savings from previous restructuring actions.

Operating income for our Aerospace & Defense segment decreased \$3.7 million, or 57%, to \$2.9 million for the three months ended April 5, 2015, compared to \$6.6 million for the same period in 2014. The year over year decrease in operating income was primarily driven by higher special charges of \$2.3 million (36%), net operational decreases of \$1.0 million (16%) and unfavorable foreign exchange fluctuations of \$0.3 million (5%). During the first quarter of 2014 we recorded a special recovery of \$2.2 million for the legal settlement of the TMW arbitration. Operating margins declined 600 basis points to 7.5% compared to the same period in 2014, primarily due to operational inefficiencies at our California operations.

Corporate operating expenses decreased \$1.0 million, or 13%, to \$6.5 million for the three months ended April 5, 2015 compared to the same period in 2014, primarily due to lower compensation related costs.

Interest Expense, Net

Interest expense, net decreased \$0.3 million to \$0.6 million for the three months ended April 5, 2015 compared to \$0.9 million for the three months ended March 30, 2014. This change in interest expense was primarily due to lower outstanding debt balances and associated interest rates during the period.

Other (Income) Expense, Net

Other income, net was \$0.5 million for the three months ended April 5, 2015 and March 30, 2014, respectively.

Provision for Income Taxes

The effective tax rate was 25.4% for the quarter ended April 5, 2015 compared to 28.5% for the same period of 2014. The tax rate in the quarter ended April 5, 2015 was lower primarily due to additional tax reserves recorded in 2014.

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, restructuring actions, acquisitions, dividend payments, pension funding obligations and debt service costs. We have historically generated cash from operations and believe we remain in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing our capital structure on a short and long-term basis.

The following table summarizes our cash flow activities for the three months ended April 5, 2015 (in thousands):

Cash flow provided by (used in):

| | |
|---|-------------|
| Operating activities | \$(16,432) |
| Investing activities | 776 |
| Financing activities | 8,336 |
| Effect of exchange rates on cash and cash equivalents | (10,083) |
| Decrease in cash and cash equivalents | \$(17,403) |

During the three months ended April 5, 2015, we used \$16.4 million of cash from operating activities compared to \$17.1 million generated during the same period in 2014. The \$33.5 million year over year increase in cash usage was primarily driven by a \$27.6 million net increase usage of operating assets and liabilities and \$5.0 million decrease in net income. We utilized \$18.7 million to acquire inventory during the first quarter of 2015 compared to generating \$0.2 million during the first quarter of 2014. In addition, we utilized \$15.3 million to pay accounts payable and accrued expenses during the first quarter of 2015 compared to increasing accounts payable and accrued expenses of \$6.9 million during the first quarter of 2014.

During the three months ended April 5, 2015, we generated \$0.8 million from investing activities as compared to usage of \$2.7 million during the same period in 2014. The \$3.5 million year over year increase in cash generated was primarily driven by \$2.8 million of proceeds from divestitures and a \$0.7 million reduction in property, plant, and equipment purchases.

During the three months ended April 5, 2015, we generated \$8.3 million for financing activities as compared to \$6.3 million during the same period in 2014. The \$2.0 million year over year increase in cash generated was primarily related to our net borrowing activity as we increased debt by \$19.1 million, offset by purchases of our common stock of \$16.7 million. Total debt as a percentage of total shareholders' equity was 8.1% as of April 5, 2015 compared to 2.8% as of December 31, 2014.

On July 31, 2014, we entered into a new five year unsecured credit agreement ("Credit Agreement"), that provides for a \$400 million revolving line of credit. The Credit Agreement includes a \$200 million accordion feature for a maximum facility size of \$600 million subject to our compliance with certain terms and conditions. The Credit Agreement also allows for additional indebtedness not to exceed \$110 million. We anticipate using the Credit Agreement to fund potential acquisitions, to support our operational growth initiatives and working capital needs, and for general corporate purposes. As of April 5, 2015, we had borrowings of \$28.9 million outstanding under the Credit Agreement and \$49.8 million outstanding under letters of credit.

Certain of our loan agreements contain covenants that require, among other items, maintenance of certain financial ratios and also limit our ability to: enter into secured and unsecured borrowing arrangements; issue dividends to

shareholders; acquire and dispose of businesses; invest in capital equipment; transfer assets among domestic and international entities; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. The two primary financial covenants are leverage ratio and interest coverage ratio. We were in compliance with all financial covenants related to our existing debt obligations on April 5, 2015 and we believe it is reasonably likely that we will continue to meet such covenants in the near future.

On December 18, 2014, our Board of Directors authorized a share repurchase program of up to \$75 million of our outstanding common stock. During the three months ended April 5, 2015, we had purchased 301,647 shares of common stock for \$16.7 million under this share repurchase plan. We utilized our Credit Agreement to pay for the repurchased shares.

The ratio of current assets to current liabilities was 3.06:1 as of April 5, 2015 compared to 2.73:1 at December 31, 2014. The increase in the current ratio was primarily due to a \$20.0 million decrease in accounts payable and accrued expenses as of April 5, 2015 as compared to December 31, 2014.

As of April 5, 2015, cash and cash equivalents totaled \$103.9 million, of which approximately \$103.4 million was held in foreign bank accounts. This compares to \$121.3 million of cash and cash equivalents as of December 31, 2014, substantially all of which was held in foreign bank accounts. The cash and cash equivalents located at our foreign subsidiaries may not be repatriated to the United States ("U.S.") or other jurisdictions without significant tax implications. We believe that our U.S. based subsidiaries, in the aggregate, will generate positive operating cash flows and in addition we may utilize our Credit Agreement for U.S. based subsidiary cash needs. As a result, we believe that we will not need to repatriate cash from our foreign subsidiaries with earnings that are indefinitely reinvested.

In 2015, we expect to generate positive cash flow from operating activities sufficient to support our capital expenditures and pay dividends of approximately \$2.7 million based on our current dividend practice of paying \$0.15 per share annually. Based on our expected cash flows from operations and contractually available borrowings under our Credit Agreement, we expect to have sufficient liquidity to fund working capital needs and future growth. We continue to search for strategic acquisitions; a larger acquisition may require additional borrowings and/or the issuance of our common stock. See Subsequent Events in Note 14 of the condensed consolidated financial statements for more details on our Q2 2015 acquisition.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The Oil & Gas markets historically have been subject to cyclicalities 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 & Gas markets, the general industrial, chemical processing, aerospace, military and maritime markets have historically experienced cyclical fluctuations in demand. These fluctuations may have a material adverse effect on our business, financial condition or results of operations.

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. For additional information regarding our foreign currency exchange risk refer to Note 8 to the condensed consolidated financial statements included in this Quarterly Report, which disclosure is incorporated by reference herein.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were designed and were effective to give reasonable assurance that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our principal

executive and financial officers, to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Changes in Internal Controls over Financial Reporting

We have made no changes in our internal controls over financial reporting during the quarter ended April 5, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding our legal proceedings refer to the first two paragraphs of Note 10 to the condensed consolidated financial statements included in this Quarterly Report, for which disclosure is referenced herein.

ITEM 1A. RISK FACTORS

We have not identified any material changes from the risk factors as previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the year ended December 31, 2014.

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

Working Capital Restrictions and Limitations upon Payment of Dividends

Certain of our loan agreements contain covenants that require, among other items, maintenance of certain financial ratios and also limit our ability to: enter into secured and unsecured borrowing arrangements; issue dividends to shareholders; acquire and dispose of businesses; invest in capital equipment; transfer assets among domestic and international entities; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. The two primary financial covenants are leverage ratio and interest coverage ratio. We were in compliance with all covenants related to our existing debt obligations at April 5, 2015 and December 31, 2014. We believe it is reasonably likely that we will continue to meet such covenants in the near future.

Share Repurchase Plan

The following table provides information about our repurchase of our common stock during the quarter ended April 5, 2015.

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program |
|-----------------------|----------------------------------|------------------------------|--|
| March 1st - April 5th | 301,647 | 55.30 | 301,647 |
| For the quarter ended | 301,647 | 55.30 | 301,647 |

We repurchased shares under a program announced on December 18, 2014, which authorizes the Company to repurchase up to \$75 million of the Company's outstanding common stock. Under the current program, shares may be purchased on the open market, in privately negotiated transactions and under plans complying with Rules 10b5-1 and 10b-18 under the Securities and Exchange Act of 1934, as amended. We initiated our repurchase program on March 16, 2015. Through April 24, 2015 we purchased 623,828 shares of common stock for \$34.9 million under this share repurchase plan.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| Exhibit No. | Description and Location |
|-------------|---|
| 10.1§* | Amended Performance-Based Restricted Stock Unit Agreement, dated as of April 9, 2013, between the Company and Scott A. Buckhout |
| 10.2§* | Executive Change of Control Agreement, dated as of March 5, 2015, between CIRCOR International, Inc. and Erik Wiik. |
| 31.1* | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32** | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial statements from CIRCOR International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended April 5, 2015, as filed with the Securities and Exchange Commission on April 28, 2015, formatted in XBRL (eXtensible Business Reporting Language), as follows: |
| | (i) Condensed Consolidated Balance Sheets as of April 5, 2015 (unaudited) and December 31, 2014 |
| | (ii) Condensed Consolidated Statements of Income for the three months ended April 5, 2015 and March 30, 2014 (unaudited) |
| | (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended April 30, 2015 and March 30, 2014 (unaudited) |
| | (iv) Condensed Consolidated Statements of Cash Flows for the three months ended April 5, 2015 and March 30, 2014 (unaudited) |
| | (v) Notes to the Condensed Consolidated Financial Statements (unaudited) |
| * | Filed with this report. |
| ** | Furnished with this report. |

SIGNATURES

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

CIRCOR INTERNATIONAL, INC.

April 28, 2015

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

April 28, 2015

/s/ Rajeev Bhalla
Rajeev Bhalla
Executive Vice President, Chief Financial Officer
Principal Financial Officer

April 28, 2015

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