

CIRCOR INTERNATIONAL INC
Form 10-Q
November 06, 2018
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 September 30, 2018

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 04-3477276
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

c/o CIRCOR INTERNATIONAL, Inc. 01803-4238
30 Corporate Drive, Suite 200, Burlington, MA
(Address of principal executive offices) (Zip Code)
(781) 270-1200
(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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Emerging growth company ☐

Non-accelerated filer ☐ Smaller reporting company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes ☐ No ☐

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

As of October 29, 2018, there were 19,843,533 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

CIRCOR INTERNATIONAL, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CIRCOR INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(UNAUDITED)

	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 71,334	\$ 110,356
Trade accounts receivable, less allowance for doubtful accounts of \$6,965 and \$4,791 at September 30, 2018 and December 31, 2017, respectively	192,110	223,922
Inventories	226,047	244,896
Restricted cash	919	1,937
Prepaid expenses and other current assets	84,265	57,282
Total Current Assets	574,675	638,393
PROPERTY, PLANT AND EQUIPMENT, NET	215,206	217,539
OTHER ASSETS:		
Goodwill	504,638	505,762
Intangibles, net	470,722	513,364
Deferred income taxes	33,130	22,334
Other assets	14,479	9,407
TOTAL ASSETS	\$ 1,812,850	\$ 1,906,799
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 111,400	\$ 117,329
Accrued expenses and other current liabilities	108,031	170,454
Accrued compensation and benefits	30,827	34,734
Total Current Liabilities	250,258	322,517
LONG-TERM DEBT	802,069	787,343
DEFERRED INCOME TAXES	25,397	26,122
PENSION LIABILITY, NET	142,067	150,719
OTHER NON-CURRENT LIABILITIES	18,888	18,124
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
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; 19,843,533 and 19,785,298 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	212	212
Additional paid-in capital	443,984	438,721
Retained earnings	253,107	274,243
Common treasury stock, at cost (1,372,488 shares at September 30, 2018 and December 31, 2017)	(74,472)) (74,472)
Accumulated other comprehensive loss, net of tax	(48,660)) (36,730)
Total Shareholders' Equity	574,171	601,974

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,812,850	\$ 1,906,799
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CIRCOR INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME

(in thousands, except per share data)

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
Net revenues	\$297,514	\$159,693	\$874,462	\$456,131
Cost of revenues	212,436	112,390	624,829	314,527
GROSS PROFIT	85,078	47,303	249,633	141,604
Selling, general and administrative expenses	74,106	38,120	229,343	116,425
Special and restructuring charges (recoveries), net	2,756	2,319	17,202	(443)
OPERATING INCOME	8,216	6,864	3,088	25,622
Other expense (income):				
Interest expense, net	14,100	2,445	39,656	6,298
Other (income) expense, net	(1,580)	823	(7,200)	2,022
TOTAL OTHER EXPENSE, NET	12,520	3,268	32,456	8,320
(LOSS) INCOME BEFORE INCOME TAXES	(4,304)	3,596	(29,368)	17,302
Provision for (benefit from) income taxes	2,537	(21)	(10,988)	(57)
NET (LOSS) INCOME	\$(6,841)	\$3,617	\$(18,380)	\$17,359
(Loss) Earnings per common share:				
Basic	\$(0.34)	\$0.22	\$(0.93)	\$1.05
Diluted	\$(0.34)	\$0.22	\$(0.93)	\$1.04
Weighted average number of common shares outstanding:				
Basic	19,843	16,503	19,829	16,486
Diluted	19,843	16,709	19,829	16,721
Dividends declared per common share	\$—	\$0.0375	\$—	\$0.1125

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		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
Net (loss) income	\$(6,841)	\$ 3,617	\$(18,380)	\$ 17,359
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	3,128	9,510	(15,380)	28,091
Interest rate swap adjustments	2,224	—	3,449	—
COMPREHENSIVE (LOSS) INCOME	\$(1,489)	\$ 13,127	\$(30,311)	\$ 45,450

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)

	Nine Months Ended	
	September 30, 2018	October 1, 2017
OPERATING ACTIVITIES		
Net (loss) income	\$(18,380)	\$ 17,359
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	21,556	10,889
Amortization	36,845	9,491
Bad debt expense	1,078	265
Loss on write down of inventory	4,632	1,463
Amortization of inventory fair value step-up	6,600	—
Compensation expense for share-based plans	4,303	2,696
Change in fair value of contingent consideration	—	(12,200)
Amortization of debt issuance costs	2,852	—
Loss on sale or write-down of property, plant and equipment	1,305	87
Loss on sale of business	—	5,300
Trade accounts receivable	21,510	8,782
Inventories	4,463	(29,703)
Prepaid expenses and other assets	(31,034)	(11,424)
Accounts payable, accrued expenses and other liabilities	(32,267)	(997)
Net cash provided by operating activities	23,463	2,008
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(17,030)	(7,773)
Proceeds from the sale of property, plant and equipment	207	269
Business acquisition, working capital consideration adjustment	6,300	1,467
Net cash used in investing activities	(10,523)	(6,037)
FINANCING ACTIVITIES		
Proceeds from long-term debt	199,600	378,263
Payments of long-term debt	(186,874)	(361,325)
Debt issuance costs	—	(727)
Dividends paid	—	(1,879)
Proceeds from the exercise of stock options	690	707
Return of cash to seller	(61,201)	—
Net cash (used in) provided by financing activities	(47,785)	15,039
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5,154)	6,338
(DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(39,999)	17,348
Cash, cash equivalents, and restricted cash at beginning of period	112,293	58,279
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD	\$ 72,294	\$ 75,627
Non-cash investing activities:		
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 1,574	\$ 1,400

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 necessary for a fair statement of the consolidated balance sheets, consolidated statements of (loss) income, consolidated statements of comprehensive (loss) 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 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 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 as of December 31, 2017 is as reported in our audited consolidated financial statements as of that date but does not contain all of the footnote disclosures from the annual financial statements. Our accounting policies are described in the notes to our December 31, 2017 consolidated financial statements, which were included in our Annual Report on Form 10-K for the year ended December 31, 2017, as updated by Note 2 with respect to newly adopted accounting standards. We recommend that the financial statements included in our Quarterly Report on Form 10-Q be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2017.

We operate and report financial information using a fiscal year ending December 31. The data periods contained within our Quarterly Reports on Form 10-Q reflect the results of operations for the 13-week, 26-week and 39-week periods which generally end on the Sunday nearest the calendar quarter-end date. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any future quarter.

Unless otherwise indicated, all financial information and statistical data included in these notes to our condensed consolidated financial statements relate to our continuing operations, with dollar amounts expressed in thousands (except per-share data).

(2) Summary of Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements for the three and nine months ended September 30, 2018 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, 2017, except as updated below with respect to newly adopted accounting standards.

New Accounting Standards - Adopted

On January 1, 2018, we adopted the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 provides further clarification of the definition of a business with the objective to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets versus businesses. The amendments in ASU 2017-01 provide criteria to determine when a set of assets and activities is not a business. ASU 2017-01 is

effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of ASU 2017-01 has not had a material impact on our condensed consolidated financial statements.

On January 1, 2018, we adopted the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under this guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. The amendments in this ASU also clarify that no new measurement date will be required if an award is not probable of vesting at the time a change is made and there is no change to the fair value, vesting conditions, and classification. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The adoption of ASU 2017-09 has not had a material impact on our condensed consolidated financial statements.

On January 1, 2018, we adopted the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of ASU 2016-18 has not had a material impact on our condensed consolidated financial statements.

On January 1, 2018, we adopted the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715), which improves the consistency, transparency, and usefulness of the service cost and net benefit cost financial information components. This ASU amends presentation requirements of service cost and other components of net retirement benefit costs in the income statement. In addition, the ASU allows only the service cost component of net benefit cost to be eligible for capitalization. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The amendments in this ASU are applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic post-retirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic post-retirement benefit in assets. We have elected to use the practical expedient that permits us to use the amounts disclosed in our pension and other post-retirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. For prospective and retroactive reclassification, service costs are recorded within the selling, general, and administrative caption of our consolidated income statement, while the other components of net benefit cost are recorded in the other expense (income), net caption of our consolidated income statement. The adoption of ASU 2017-17 did not have a material impact on our prior period condensed consolidated financial statements.

On January 1, 2018, we adopted the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which reduces the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This ASU addresses eight specific cash flow issues with the objective of enhancing consistency in presentation and classification. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of ASU 2016-15 has not had a material impact on our condensed consolidated financial statements.

On January 1, 2018, we adopted the requirements of ASU 2014-09, Revenue from Contracts with Customers and all the related amendments (“ASC 606” or the “new revenue standard”) using the modified retrospective transition approach. The new revenue standard provides for a single comprehensive model to use in accounting for revenue arising from contracts with customers and replaces most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles (“GAAP”). We recognized the cumulative effect of adopting the new revenue standard as an adjustment to the opening balance of retained earnings as of January 1, 2018. The comparative periods presented have not been restated and continue to be reported under the accounting standards in effect for those periods.

The Company recognizes revenue to depict the transfer of control to the Company’s customers in an amount reflecting the consideration the Company expects to be entitled to in exchange for performance obligations. In order to apply this revenue recognition principle, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when, or as, a performance obligation is satisfied. See Note 3, Revenue Recognition for further information.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of the new revenue standard were as follows (in thousands):

	As of December 31, 2017	ASC 606 Adjustments	As of January 1, 2018
Assets			
Contract assets (1)	15,019	(2,995)	12,024
Inventories	244,896	540	245,436
Deferred income taxes	22,333	1,123	23,456
Liabilities			
Contract liabilities (2)	(33,718)	(1,517)	(35,235)
Deferred income taxes	(26,122)	92	(26,030)
Equity			
Retained earnings	(274,243)	2,757	(271,486)

(1) Recorded within prepaid expenses and other current assets. Debit balances are presented as a positive and credit balances are presented as a negative herein.

(2) Recorded within accrued expenses and other current liabilities. Debit balances are presented as a positive and credit balances are presented as a negative herein.

The net impact on retained earnings under the new revenue standard is the result of offsetting amounts attributed to contracts that converted from point in time to over time recognition of \$2.5 million and contracts that converted from over time to point in time recognition of \$5.3 million.

For contracts that were modified before the effective date, we reflected the aggregate effect of all modifications when identifying performance obligations and allocating transaction price in accordance with the practical expedient method under the new revenue standard, which did not have a material effect on the adjustment to retained earnings.

The tables below illustrate the differences in our condensed consolidated statement of (loss) income and balance sheet due to the change in revenue recognition standard (in thousands):

For the three months ended
September 30, 2018

	As Reported	Balances Without Adoption of ASC 606	Effective Change
Net revenues	297,514	291,564	5,950
Cost of revenues	212,436	209,123	3,313
Provision for income taxes	2,537	1,944	593
Net (Loss) Income	(6,841)	(8,885)	2,044

For the nine months ended
September 30, 2018

	As Reported	Balances Without Adoption of ASC 606	Effective Change
Net revenues	874,462	831,479	42,983
Cost of revenues	624,829	597,903	26,926
Benefit from income taxes	(10,988)	(14,587)	3,599
Net (Loss) Income	(18,380)	(30,838)	12,458

As of September 30, 2018

	As Reported	Balances Without Adoption of ASC 606	Effective Change
Assets			
Contract assets (1)	43,791	7,702	36,089
Inventories	226,047	254,246	(28,199)
Deferred income taxes	33,130	35,623	(2,493)
Liabilities			
Contract liabilities (2)	33,416	41,583	(8,167)
Deferred income taxes	25,397	24,291	1,106
Retained earnings	253,107	239,249	13,858

(1) Recorded within prepaid expenses and other current assets.

(2) Recorded within accrued expenses and other current liabilities.

For the three and nine months ended September 30, 2018, we realized changes to our net (loss) income and in the working capital accounts as described above, with no impact on our net cash flows from operating activities.

For the three and nine months ended September 30, 2018, the only impact to comprehensive income as a result of the changes between the balances with ASC 606 and without ASC 606 related to the adjustments to net (loss) income shown in the table above.

New Accounting Standards - Not Yet Adopted

In March 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 outlines a model for lessees by recognizing all lease-related assets and liabilities on the balance sheet. The amendments in this ASU are effective for fiscal years beginning after

December 15, 2018 and interim periods within those fiscal years. Early application is permitted. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. In July 2018, the FASB issued ASU 2018-11, Leases: Targeted Improvements. The amendment provides transition relief, as entities may elect not to recast the comparable periods and rather change the date of initial application to the beginning of the period of adoption.

We established a cross-functional implementation team including representatives from operations, legal, and finance. We identified potential changes to our business processes and controls to support recognition and disclosure under the new standard. We made progress toward completing our evaluation of the potential changes from adopting the new standard on our financial reporting and disclosures. Activities performed during the third quarter included collecting and reviewing our lease agreements and training our finance professionals on the new standard. We continue to gather and analyze our lease agreements to determine proper classification and accounting treatment, as well as working with finance and legal advisors on specific interpretative issues. We intend to adopt this new standard on January 1, 2019, and we are still evaluating the impact it will have on our consolidated financial statements.

(3) Revenue Recognition

Our revenue is derived from a variety of contracts. A significant portion of our revenues are from contracts associated with the design, development, manufacture or modification of highly engineered, complex and severe environment products with customers who are either in or service the energy, aerospace, defense and industrial markets. Our contracts within the defense markets are primarily with U.S. military customers. Our contracts with the U.S. military customers typically are subject to the Federal Acquisition Regulations (FAR). We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Contracts may be modified to account for changes in contract specifications and requirements. Contract modifications exist when the modification either creates new, or changes the existing, enforceable rights and obligations. Contract modifications for goods or services that are not distinct from the existing contract are accounted for as if they were part of that existing contract. In these cases, the effect of the contract modification on the transaction price and the measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis, except when such modifications relate to a performance obligation which is a series of substantially the same distinct goods or services. If the modification relates to a performance obligation for a series of substantially the same distinct goods or services, the modifications are treated prospectively. Contract modifications for goods or services that are considered distinct from the existing contract are accounted for as separate contracts.

Performance Obligations. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, control is transferred to the customer. Consistent with historical practice, we exclude from the transaction price amounts collected on behalf of third parties (e.g. taxes). Our performance obligations are typically satisfied at a point in time upon delivery and shipping and handling costs are treated as fulfillment costs. To determine the proper revenue recognition method for contracts for highly engineered, complex and severe environment products with right of payment, which meet over-time revenue recognition criteria, we evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. In certain instances, we accounted for contracts using the portfolio approach when the effect of accounting for a group of contracts or group of performance obligations would not differ materially from considering each contract or performance obligation separately. This determination requires the use of estimates and assumptions that reflect the

size and composition of the portfolio. For most of our over-time revenue recognition contracts, the customer contracts with us to provide custom products which serve a single project or capability (even if that single project results in the delivery of multiple products) with right of payment. In circumstances where each distinct product in the contract transfers to the customer over time and the same method would be used to measure the entity's progress toward complete satisfaction of the performance obligation to transfer each unit to the customer, we would then apply the series guidance to account for the multiple products as a single performance obligation. Hence, the entire contract is accounted for as one performance obligation. An example of these performance obligations include refinery valves or actuation components and sub-systems. Less commonly, however, we may promise to provide distinct goods or services within the over-time revenue recognition contract, in which case we separate the contract into more than one performance obligation. For all contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. Generally, the contractually stated price is the primary method used to estimate standalone selling price as the good or service

is sold separately in similar circumstances and to similar customers for a similar price and discounts are allocated proportionally to each performance obligation. The Company will not adjust the promised amount of consideration for the effects of a significant financing component as we expect, at contract inception, that the period between when the transfer of control to our customers and when the customer fully pays for the related performance obligations will be less than a year.

Revenue from products and services transferred to customers over-time accounted for 1 percent and 5 percent of our revenue for the three and nine months ended September 30, 2018, respectively. The majority of our revenue recognized over-time is related to our Refinery Valves business within our Energy segment and certain other businesses that sell customized products to customers that serve the U.S. Department of Defense within our Aerospace and Defense segment and have contract provisions guaranteeing us costs and profit upon customer cancellation. Revenue is recognized over-time using an input measure (e.g., costs incurred to date relative to total estimated costs at completion, known as the “cost-to-cost” method) to measure progress. We generally use the cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, revenues are recorded proportionally as costs are incurred. Contract costs include labor, materials and subcontractors’ costs, other direct costs and an allocation of overhead, as appropriate.

On September 30, 2018, we had \$557.0 million of revenue related to remaining performance obligations. We expect to recognize approximately 42 percent of our remaining performance obligations as revenue during the remainder of 2018, 48 percent in 2019, and the remaining 10 percent in 2020 and thereafter.

Contract Balances. The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the consolidated balance sheet. Contract assets include unbilled amounts typically resulting from over-time contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value. Contract assets are generally classified as current. Generally, payment terms are based on shipment and billing occurs subsequent to revenue recognition, resulting in contract assets for over-time revenue recognition products. However, we sometimes receive advances or deposits from our customers, before revenue is recognized, resulting in contract liabilities. Contract liabilities are generally classified as current. These assets and liabilities are reported net on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. Consistent with historical practice, we elected to expense the incremental costs of obtaining a contract when the amortization period for such contracts would have been one year or less.

In order to determine revenue recognized in the period from contract liabilities, we first allocate revenue to the individual contract liabilities balances outstanding at the beginning of the period until the revenue exceeds that balance. If additional advances are received on those contracts in subsequent periods, we assume all revenue recognized in the reporting period first applies to the beginning contract liabilities as opposed to a portion applying to the new advances for the period.

The opening and closing balances of the Company’s contract assets and contract liabilities balances as of September 30, 2018 are as follows (in thousands):

	With ASC 606		
	September 30, 2018	January 1, 2018	Increase/(Decrease)
Trade accounts receivables, net	192,110	223,922	(31,812)
Contract assets (1)	43,791	12,024	31,767

Contract liabilities (2) 33,416 35,235 (1,819)

(1) Recorded within prepaid expenses and other current assets.

(2) Recorded within accrued expenses and other current liabilities

The difference in the opening and closing balances of the contract assets and contract liabilities primarily result from the timing difference between the Company's performance and the customer's payment.

Trade account receivables, net decreased \$31.8 million, or 14%, to \$192.1 million as of September 30, 2018, primarily driven by cash collections during the nine months ended September 30, 2018.

Contract assets increased \$31.8 million, or 264%, to \$43.8 million, as of September 30, 2018, primarily related to unbilled revenue recognized during the nine months ended September 30, 2018 within our Refinery Valves business (+106%), U.S. Defense business (+57%), and North American Valves business (+45%).

Contract liabilities decreased \$1.8 million, or 5%, to \$33.4 million as of September 30, 2018, primarily driven by revenue recognized over time during the nine months ended September 30, 2018 within our Refinery Valves business (-11%), partially offset by customer advance payments within our U.S. Defense Business (+4%).

Contract Estimates. Accounting for over-time contracts requires reliable estimates in order to estimate total contract revenue and costs. For these contracts, we have a Company-wide standard and disciplined quarterly Estimate at Completion ("EAC") process in which management reviews the progress and execution of our performance obligations. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the delivery schedule (e.g., the timing of shipments), technical requirements (e.g., a highly engineered product requiring sub-contractors) and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g. to estimate increases in wages and prices for materials and related support cost allocations), execution by our subcontractors, the availability and timing of funding from our customer and overhead cost rates, among other variables. Based on all of these factors, we estimate the profit on a contract as the difference between the total estimated revenue and EAC costs and recognize the resultant profit over the life of the contract, using the cost-to-cost EAC input method to measure progress.

The nature of our contracts gives rise to several types of variable consideration, including penalties. We include in our contract estimates a reduction to revenue for customer agreements, primarily in our large projects business, which contain late shipment penalty clauses whereby we are contractually obligated to pay consideration to our customers if we do not meet specified shipment dates. We generally estimate the variable consideration at the most likely amount to which the customer expects to be entitled. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The variable consideration for estimated penalties is based on several factors including historical customer settlement experience, contractual penalty percentages, and facts surrounding the late shipment.

A change in one or more of these estimates could affect the profitability of our contracts. We review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the quarter it is identified.

The impact of adjustments in contract estimates on our operating earnings can be reflected in either operating expenses or revenue. There have been no significant changes in estimates in the three months ended September 30, 2018.

Disaggregation of Revenue. The following table presents our revenue disaggregated by major product line (in thousands):

	September 30, 2018	
	Three Months Ended	Nine Months Ended
Energy Segment		
Oil & Gas - Upstream, Midstream & Other	\$63,810	\$166,688
Oil & Gas - Downstream	57,213	167,110
Total	121,023	333,798
Aerospace & Defense Segment		
Commercial Aerospace & Other	28,571	81,420
Defense	29,186	92,314
Total	57,757	173,734
Industrial Segment		
Pumps & Valves EMEA	74,193	240,415
Pumps & Valves North America	44,541	126,515
Total	118,734	366,930
Net Revenue	\$297,514	\$874,462

(4) Inventories

Inventories consisted of the following (in thousands):

	September 30, December	
	2018	31, 2017
Raw materials	\$ 79,321	\$82,372
Work in process	109,591	121,709
Finished goods	37,135	40,815
Total inventories	\$ 226,047	\$244,896

(5) Business Acquisition

Fluid Handling

On September 24, 2017, CIRCOR entered into a Purchase Agreement (the "Purchase Agreement") with Colfax Corporation ("Colfax"). Pursuant to the Purchase Agreement, on December 11, 2017, the Company acquired the fluid handling business of Colfax ("FH") for consideration consisting of \$542.0 million in cash, 3,283,424 unregistered shares of the Company's common stock, with a fair value of approximately \$143.8 million at closing, and the assumption of net pension and post-retirement liabilities of FH. The cash consideration is subject to customary working capital adjustments. The Company financed the cash consideration through a combination of committed debt financing and cash on hand. During the second quarter of 2018, the shares were registered and sold with all proceeds going to Colfax.

FH is a leader in the engineering, development, manufacturing, distribution, service and support of fluid handling systems. With a history dating back to 1860, FH is a leading supplier of screw pumps for high demand, severe service applications across a range of markets including general industry, commercial marine, defense, and oil & gas. FH leverages differentiated technology, and provides critical aftermarket customer support, to maintain leading positions in high demand niche markets.

Effective January 1, 2018, the operating results of FH have been split between each of our operating segments, Energy, Aerospace & Defense, and Industrial based upon the end markets of the sub-businesses within FH.

The purchase price allocation is based upon a preliminary valuation of assets and liabilities that was prepared with assistance from a third party valuation specialist. The estimates and assumptions are subject to change as we obtain additional information during the measurement period (up to one year from the acquisition date). The purchase accounting is expected to be finalized in the fourth quarter of 2018. The assets and liabilities pending finalization include the valuation of acquired

tangible and intangible assets, certain operating liabilities, and the evaluation of income taxes. Differences between the preliminary and final valuation could have a material impact on our future results of operations and financial position.

The following table summarizes the preliminary fair value of the assets acquired and the liabilities assumed, at the date of acquisition:

(in thousands)

Cash and cash equivalents (a)	\$63,403
Restricted cash (a)	1,911
Accounts receivable	76,111
Inventory	78,240
Prepaid expenses and other current assets	17,044
Deferred income taxes	41,454
Property, plant and equipment	122,128
Identifiable intangible assets	383,178
Other assets	338
Accounts payable	(46,011)
Cash payable to seller (a)	(65,314)
Accrued and other expenses	(69,969)
Long-term post-retirement liabilities	(143,067)
Other long-term liabilities	(11,215)
Deferred tax liabilities	(48,776)
Total identifiable net assets	\$399,455
Goodwill	298,132
Total purchase price	\$697,587
Consideration	
Base purchase price	\$542,000
Net working capital and other purchase accounting adjustments	11,821
Common Stock	143,766
Total	\$697,587

(a) Cash acquired and returned to seller by the second quarter of 2018.

During the first nine months of 2018, we identified certain uncollectible accounts receivables (\$1.4 million), obsolete inventories (\$0.4 million), and obligations (\$0.7 million). Additionally, we received cash from Colfax to settle customary working capital adjustments (\$6.3 million) and recorded a liability for a loss customer contract ("Loss Contract") of \$9.6 million, including \$1.7 million for liquidated damages. We also identified certain working capital adjustments (\$0.2 million). These all required further adjustment to our December 11, 2017 opening balance sheet, and have been recorded during the nine months ended September 30, 2018.

The excess of purchase price paid over the fair value of FH's net assets was recorded to goodwill, which is primarily attributable to projected future profitable growth, market penetration, as well as an expanded customer base for the acquired businesses. As of September 30, 2018, approximately 63% of goodwill is projected to be deductible for income tax purposes.

The FH acquisition resulted in the preliminary identification of the following identifiable intangible assets (in thousands):

	Original Estimate	Measurement Period Adjustment	Fair Value	Weighted average amortization period (in years)
Customer relationships	\$215,000	\$ (7,000)	\$ 208,000	19
Acquired technologies	107,000	6,000	113,000	20
Trade names	44,000	2,000	46,000	Indefinite-life
Backlog	22,000	(6,000)	16,000	4
Total intangible assets	\$388,000	\$ (5,000)	\$ 383,000	

During the measurement period, with the help of third party specialists, we adjusted the fair value of the acquired FH intangibles based upon better information regarding discount rates, royalty rates, and more detailed business unit forecasts that was determinable at the time of acquisition. The revised fair value of acquired FH intangibles have been recorded against our FH opening balance sheet during the first quarter of 2018.

The fair value of the intangible assets was based on variations of the income approach, which estimates fair value based on the present value of cash flows that the assets are expected to generate. These approaches included the relief-from-royalty method and multi-period excess earnings method, depending on the intangible asset being valued. Customer relationships, backlog, and existing technology are amortized on a cash flow basis which reflects the economic benefit consumed. The trade name was assigned an indefinite life based on the Company's intention to keep the trade names for an indefinite period of time. Refer to Note 6, Goodwill and Intangibles, net for future expected amortization to be recorded.

(6) Goodwill and Intangibles, net

The following table shows goodwill by segment as of December 31, 2017 and September 30, 2018 (in thousands):

	Energy	Aerospace & Defense	Industrial	Total
Goodwill as of December 31, 2017	\$154,058	\$ 62,548	\$289,156	\$505,762
Adjustments to preliminary purchase price allocation	(5,479)	(6,050)	16,317	4,788
Currency translation adjustments	(1,440)	(33)	(4,439)	(5,912)
Goodwill as of September 30, 2018	\$147,139	\$ 56,465	\$301,034	\$504,638

During the first nine months of 2018, we identified certain uncollectible accounts receivables, obsolete inventories, a liability for a loss contract, and other obligations which required further adjustment to our December 11, 2017 opening balance sheet. The identified adjustments have been recorded against our FH opening balance sheet during the first, second, and third quarters of 2018 and are reflected in the line "adjustments to preliminary purchase price allocation" listed in the table above.

During the first quarter ended April 1, 2018, we realigned our organizational structure under three reportable business segments: Energy, Aerospace & Defense and Industrial. Our realignment was a triggering event for goodwill impairment testing. During the first quarter of 2018, we evaluated our reporting units for goodwill impairment and determined no impairments existed.

The table below presents gross intangible assets and the related accumulated amortization as of September 30, 2018 (in thousands):

	Gross Carrying Amount	Accumulated Amortization
Patents	\$5,399	\$ (5,399)
Customer relationships	311,846	(54,971)
Backlog	23,494	(15,457)
Acquired technology	141,305	(21,401)
Other	5,258	(4,882)
Total Amortized Assets	\$487,302	\$ (102,110)
Non-amortized intangibles (primarily trademarks and trade names)	\$85,530	\$ —
Total Non-Amortized Intangibles	\$85,530	\$ —
Net carrying value of intangible assets	\$470,722	

The table below presents estimated remaining amortization expense for intangible assets recorded as of September 30, 2018 (in thousands):

	Remainder of 2018	2019	2020	2021	2022	After 2022
Estimated amortization expense	\$ 12,248	\$49,851	\$45,742	\$43,574	\$38,161	\$195,616

(7) Segment Information

Our Chief Operating Decision Maker evaluates segment operating performance using segment operating income. Segment operating income is defined as GAAP operating income excluding intangible amortization and amortization of fair value step-ups of inventory and fixed assets from acquisitions completed subsequent to December 31, 2011, the impact of restructuring related inventory write-offs, impairment charges and special charges or gains. The Company also refers to this measure as adjusted operating income. The Company uses this measure because it helps management understand and evaluate the segments' core operating results and facilitate comparison of performance for determining incentive compensation achievement.

As of December 31, 2017 we had organized our reporting structure into three segments: CIRCOR Energy ("Energy segment" or "Energy"), CIRCOR Advanced Flow Solutions ("Advanced Flow Solutions segment" or "AFS"), and CIRCOR Fluid Handling ("Fluid Handling").

Effective January 1, 2018, we realigned our businesses with end markets to simplify the business, clarify customer and channel relationships and help us exploit growth synergy opportunities across the organization. The new reporting segments are Energy, Aerospace & Defense and Industrial. The Energy segment remains unchanged except for the addition of Reliability Services, a business from the FH acquisition. The Aerospace & Defense segment includes the Aerospace business out of our AFS segment, as well as the Pumps Defense business of Fluid Handling. The Industrial segment includes the remaining portion of Fluid Handling as well as the industrial solutions and power and process businesses (mainly control valves) that were part of AFS. In addition, a number of smaller product lines were realigned as part of this change to better manage and serve our customers. The current and prior periods are reported under the new segment structure.

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

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	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017
Net revenues				
Energy	\$ 121,023	\$ 88,569	\$ 333,799	\$ 243,055

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Aerospace & Defense	57,757	41,117	173,734	126,022
Industrial	118,734	30,007	366,929	87,054
Consolidated net revenues	\$297,514	\$159,693	\$874,462	\$456,131

(Loss) Income from operations before income taxes

Energy - Segment Operating Income	\$9,163	\$6,936	\$24,101	\$21,512
Aerospace & Defense - Segment Operating Income	8,709	4,333	24,631	12,492
Industrial - Segment Operating Income	14,609	5,675	42,592	14,960
Corporate expenses	(8,034)	(5,067)	(22,284)	(15,942)
Subtotal	24,447	11,877	69,040	33,022
Restructuring charges, net	1,348	341	11,807	5,366
Special charges (recoveries), net	1,408	1,978	5,395	(5,809)
Special and restructuring charges (recoveries), net	2,756	2,319	17,202	(443)
Restructuring related inventory charges	—	—	1,538	—
Amortization of inventory step-up	—	—	6,600	—
Acquisition amortization	11,734	2,694	35,299	7,843
Acquisition depreciation of fixed assets step-up	1,742	—	5,314	—
Acquisition amortization and other costs, net	13,476	2,694	48,751	7,843
Consolidated Operating Income	8,216	6,864	3,088	25,622
Interest expense, net	14,100	2,445	39,656	6,298
Other (income) expense, net	(1,580)	823	(7,200)	2,022
(Loss) Income from operations before income taxes	\$(4,304)	\$3,596	\$(29,368)	\$17,302

Three Months Ended
September 30, 2018
October 1, 2017
Nine Months Ended
September 30, 2018
October 1, 2017

Capital expenditures

Energy	\$2,572	\$1,202	\$6,852	\$2,699
Aerospace & Defense	1,320	909	3,161	2,379
Industrial	910	901	6,760	2,035
Corporate	187	39	574	782
Consolidated capital expenditures	\$4,989	\$3,051	\$17,347	\$7,895

Depreciation and amortization

Energy	\$4,061	\$3,147	\$12,408	\$9,342
Aerospace & Defense	2,716	1,073	8,244	3,253
Industrial	12,337	2,266	37,158	6,765
Corporate	171	328	592	1,022
Consolidated depreciation and amortization	\$19,285	\$6,814	\$58,402	\$20,382

Identifiable assets
September 30, 2018
December 31, 2017

Energy	\$905,708	\$837,492
Aerospace & Defense	642,431	375,094
Industrial	1,020,849	1,408,217
Corporate	(756,138)	(714,004)
Consolidated identifiable assets	\$1,812,850	\$1,906,799

The total assets for each reportable 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 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 for Identifiable Assets. Corporate Identifiable Assets excluding intercompany assets were \$28.2 million and \$51.5 million as of September 30, 2018 and October 1, 2017, respectively.

(8) Financial Instruments

Fair Value

The company utilizes fair value measurement guidance prescribed by accounting standards to value its financial instruments. The guidance establishes a fair value hierarchy based on the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level One: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level Two: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level Three: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value measurements of the Company's financial instruments as of September 30, 2018 are summarized in the table below:

	Significant Other Observable Inputs Level 2
Current Liabilities	\$ (102)
Derivative Assets	3,449
Total Financial Instruments	\$ 3,347

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. Cash equivalents are carried at cost which approximates fair value at the balance sheet date and is a Level 1 financial instrument. As of September 30, 2018 and December 31, 2017, the outstanding balance of the Company's debt approximated fair value based on current rates available to the Company for debt of the same maturity and is a Level 2 financial instrument.

Effective April 12, 2018, the Company entered into an interest rate swap pursuant to an International Swaps and Derivatives Association ("ISDA") Master Agreement with Citizens Bank, National Association ("interest rate swap"). The four-year interest rate swap has a fixed notional value of \$400.0 million with a 1% LIBOR floor and a maturity

date of April 12, 2022. The fixed rate of interest paid by the Company is comprised of our current credit spread of 350 basis points plus 2.6475% for a total interest rate of 6.1475%. The ISDA Master Agreement, together with its related schedules, contain customary representations, warranties and covenants. This hedging agreement was entered into to mitigate the interest rate risk inherent in the Company's variable rate debt and is not for speculative trading purposes.

The Company has designated the interest rate swap as a qualifying hedging instrument and is treating it as a cash flow hedge for accounting purposes pursuant to ASC 815, Derivatives and Hedging. The net fair value of the interest rate swap was \$3.3 million and is recorded in Other assets of \$3.7 million and Accrued expenses and other current liabilities of \$0.4 million on our condensed consolidated balance sheet as of September 30, 2018. The unrealized gains recognized in other comprehensive

income (loss) were \$1.6 million and \$2.2 million for the three and nine months ended September 30, 2018, respectively. The realized loss of \$0.6 million and \$1.2 million were reclassified from other comprehensive income (loss) to interest expense as interest expense was accrued on the swap during the three and nine months ended September 30, 2018, respectively. Amounts expected to be reclassified from other comprehensive income into interest expense in the coming 12 months is a loss of \$0.2 million. Interest expense (including the effects of the cash flow hedges) related to the portion of the Company's term loan subject to the aforementioned interest-rate swap agreement was \$6.2 million and \$17.5 million for the three and nine months ended September 30, 2018, respectively.

(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 insure us with respect to certain events covered under the policies and should enable us to recover a portion of any future amounts paid under the indemnification agreements. We have no liabilities recorded from those agreements as of September 30, 2018.

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 nine months ended September 30, 2018 (in thousands):

Balance beginning December 31, 2017	\$4,623
Provisions	1,488
Claims settled	(1,570)
Currency translation adjustment	(57)
Balance ending September 30, 2018	\$4,484

Warranty obligations decreased \$0.1 million from \$4.6 million as of December 31, 2017 to \$4.5 million as of September 30, 2018, primarily driven by net claims settled and quarterly provisions within each of our operating segments.

(10) Commitments and Contingencies

We are subject to various legal proceedings and claims pertaining to matters such as product liability or contract disputes, including issues arising under certain customer contracts with aerospace and defense customers. We are also subject to other proceedings and governmental inquiries, inspections, audits or investigations pertaining to issues such as tax matters, patents and trademarks, pricing, business practices, governmental regulations, employment and other matters. Although the results of litigation and claims cannot be predicted with certainty, we expect that the ultimate disposition of these matters, to the extent not previously provided for, will not have a material adverse effect, individually or in the aggregate, on our business, financial condition, results of operations or liquidity.

On February 21, 2018, the Company entered into a mediated settlement regarding a wage and hour action in California by a former employee. In October 2016, the plaintiff alleged non-compliance with California State labor law, including missed or late meal breaks, for hourly employees of CIRCOR Aerospace, Inc. in Corona, California. The total settlement amount of \$2.4 million has been recorded as a liability as of September 30, 2018 and December 31, 2017. This settlement resolves all wage/hour claims by all potentially affected employees through the settlement date and was approved by the California Superior Court during 2018. The Company has yet to fund the settlement as of September 30, 2018.

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, Inc.) ("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 expect that these asbestos-related claims will have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

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 \$70.0 million at September 30, 2018. 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 September 30, 2018.

The following table contains information related to standby letters of credit instruments outstanding as of September 30, 2018 (in thousands):

Term Remaining	Maximum Potential Future Payments
0–12 months	\$ 38,741
Greater than 12 months	31,245
Total	\$ 69,986

(11) Retirement Plans

The following table sets forth the components of total net periodic benefit cost (income) of the Company's defined benefit pension plans and other post-retirement employee benefit plans (in thousands):

Three Months Ended		Nine Months Ended	
September 30,	October 1,	September 30,	October 1,
2018	2017	2018	2017