

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

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

**For the fiscal year ended December 31, 2003**

**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

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**CIRCOR INTERNATIONAL, INC.**

(A Delaware Corporation)

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

c/o Circor, Inc.

Suite 290

35 Corporate Drive, Burlington, MA 01803-4244

Telephone: (781) 270-1200

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

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer. Yes  No

The aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2003 was \$270,472,264.

As of February 27, 2004, there were 15,307,527 shares of the Registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates by reference certain portions of the information from the Registrant's definitive Proxy Statement for the 2004 Annual Meeting of Stockholders to be held on April 22, 2004. The definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of 2003.

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TABLE OF CONTENTS

		<b>Page</b>
	<b><u>PART I</u></b>	
Item 1	<a href="#">Business</a>	1
Item 2	<a href="#">Properties</a>	9
Item 3	<a href="#">Legal Proceedings</a>	10
Item 4	<a href="#">Submission of Matters to a Vote of Security Holders</a>	11
	<b><u>PART II</u></b>	
Item 5	<a href="#">Market for the Registrant’s Common Equity and Related Stockholder Matters</a>	12
Item 6	<a href="#">Selected Financial Data</a>	13
Item 7	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	15
Item 7A	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	38
Item 8	<a href="#">Financial Statements and Supplementary Data</a>	39
Item 9	<a href="#">Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</a>	39
Item 9A	<a href="#">Controls and Procedures</a>	39
	<b><u>PART III</u></b>	
Item 10	<a href="#">Directors and Executive Officers of the Registrant</a>	40
Item 11	<a href="#">Executive Compensation</a>	40
Item 12	<a href="#">Security Ownership of Certain Beneficial Owners and Management</a>	40
Item 13	<a href="#">Certain Relationships and Related Transactions</a>	40
Item 14	<a href="#">Principal Accounting Fees and Services</a>	40
	<b><u>PART IV</u></b>	
Item 15	<a href="#">Exhibits, Financial Statement Schedules and Reports on Form 8-K</a>	41
	<a href="#">Signatures</a>	45
	<a href="#">Independent Auditors’ Report</a>	46
	<a href="#">Consolidated Balance Sheets</a>	47
	<a href="#">Consolidated Statements of Operations</a>	48
	<a href="#">Consolidated Statements of Cash Flows</a>	49
	<a href="#">Consolidated Statements of Shareholders’ Equity</a>	50
	<a href="#">Notes to Consolidated Financial Statements</a>	51
	<a href="#">Schedule II – Valuation and Qualifying Accounts</a>	78

**PART I**

**ITEM 1. BUSINESS**

*This report contains certain statements that are “forward-looking statements” as that term is defined under the Private Securities Litigation Reform Act of 1995 (the “Act”) and releases issued by the Securities and Exchange Commission. The words “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “continue,” and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. We believe that it is important to communicate our future expectations to our stockholders, and we, therefore, make forward-looking statements in reliance upon the safe harbor provisions of the Act. However, there may be events in the future that we are not able to accurately predict or control, and our actual results may differ materially from the expectations we describe in our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the cyclical and highly competitive nature of some of our end markets which can affect the overall demand for and pricing of our products, changes in the price of and demand for oil and gas in both domestic and international markets, our continued success in winning orders for large oil and gas projects, variability of raw material and component pricing, our ability to lower inventory levels and minimize unabsorbed manufacturing costs, fluctuations in foreign currency exchange rates, our ability to continue operating our manufacturing facilities at efficient levels and to successfully implement our acquisition strategy, the ultimate outcome of various judicial and legal proceedings, the impact of present or future import-export laws, the potential impairment of recorded goodwill, and the uncertain continuing impact on economic and financial conditions in the United States and around the world as a result of terrorist attacks, current Middle Eastern tensions and related matters. We advise you to read further about certain of these and other risk factors set forth under the caption “Certain Risk Factors that May Affect Future Results” in this Annual Report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.*

**Available Information**

We file periodic reports on Form 10-K and 10-Q with the Securities and Exchange Commission (“SEC”) on a quarterly basis and a Definitive Proxy Statement on an annual basis. These and other reports filed by us, or furnished by us, to the SEC in accordance with section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge from the SEC on their website at <http://www.sec.gov>. Additionally, our Form 10-Q and Form 10-K reports are available without charge, as soon as reasonably practicable after they have been filed with the SEC, from our website at [www.circor.com](http://www.circor.com) by using the “Investor Relations” hyperlink.

**Our History**

We were established by our former parent, Watts Water Technologies, Inc., formerly known as Watts Industries, Inc. (“Watts”), to continue to operate the former industrial, oil and gas businesses of Watts. On October 18, 1999, Watts distributed all of our outstanding common stock to Watts shareholders of record as of October 6, 1999 in a tax-free distribution. As a result, information related to historical activities of our business units also includes time periods when such units constituted the former industrial, oil and gas businesses of Watts. In connection with the spin-off, our common stock was listed on the NYSE under the symbol “CIR” and we entered into agreements with Watts regarding licensing and tax sharing arrangements, benefits and indemnification matters. As used in this report, the terms “we,” “us,” “our,” and “CIRCOR” mean CIRCOR International, Inc. and its subsidiaries (unless the context indicates another meaning). The term “common stock” means our common stock, par value \$0.01 per share.

## [Table of Contents](#)

### **Our Business**

We design, manufacture and distribute a broad array of valves and related products and services to a variety of end-markets for use in a wide range of applications to optimize the efficiency and/or ensure the safety of fluid-control systems. We have a global presence and operate 14 significant manufacturing facilities that are located in the United States, Canada, Western Europe and the People's Republic of China. We have two major product groups: Instrumentation and Thermal Fluid Controls Products and Petrochemical Products. Our products are sold through more than 1,400 distributors servicing more than 10,000 customers in over 110 countries around the world. Within our major product groups, we have used both internal product development and strategic acquisitions to assemble an array of fluid-control products and technologies that enable us to address our customers' unique fluid-control application needs.

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

The Instrumentation and Thermal Fluid Controls Products Group accounted for \$200.8 million, or 55.9%, of our net revenues for the year ended December 31, 2003.

We have had a long-standing presence in the steam application markets, starting with our 1984 acquisition of Spence Engineering Company, Inc. ("Spence Engineering" or "Spence") and our 1989 acquisitions of Leslie Controls, Inc. ("Leslie Controls") and Nicholson Steam Trap, Inc. ("Nicholson Steam Trap"). In January 1999, we acquired SSI Equipment Inc. ("SSI") and added a wide variety of strainers to expand our industrial products line. This business was originally reported within the Petrochemical Products Group. However, in March 2002, we transferred SSI to the Instrumentation and Thermal Fluid Controls Products Group, to better reflect the products and markets that this business serves. Prior periods have been restated and net revenues, operating income, and identifiable assets are not materially different as a result of this reclassification. In June 2001, we acquired Regeltechnik Kornwestheim GmbH and affiliates ("RTK") and Société Alsacienne Regulaves Thermiques von Rohr, S.A. ("SART"). We believe that we have a very strong franchise in steam valve products. Both Leslie Controls and Nicholson Steam Trap have been in the steam pressure reduction and control business for over 100 years. Spence Engineering has also been in these businesses for over 75 years. Due to the reputation of these businesses for reliability and quality, customers often specifically request our products by brand name. Our steam valve products are used in: municipal and institutional steam heating and air-conditioning applications; power plants; industrial and food processing; and commercial and military maritime applications.

Commencing with the 1990 acquisition of Circle Seal Controls, Inc. ("Circle Seal"), a manufacturer of miniature instrumentation valves, we have acquired thirteen businesses that serve the instrumentation and aerospace fluid control markets. These acquisitions included Aerodyne Controls ("Aerodyne") in December 1997, Atkomatic Valve ("Atkomatic") in April 1998, Hoke, Inc. ("Hoke") in July 1998, GO Regulator in April 1999, Tomco Products, Inc. ("Tomco") and U.S. Para Plate Corporation ("U.S. Para Plate") in October 2002, DQS International ("DQS") in November 2003 and Texas Sampling, Inc. ("TSI") in December 2003. Aerodyne manufactures high-precision valve components for the medical, analytical, military and aerospace markets. Aerodyne also provides advanced technologies and control systems capabilities to other companies in

## [Table of Contents](#)

the Instrumentation and Thermal Fluid Controls Products Group. Atkomatic makes heavy-duty process solenoid valves that automate the regulation and sequencing of liquid levels or volume flow. GO Regulator offers a complete line of specialized cylinder valves, customized valves and pneumatic pressure regulators for instrumentation, analytical and process applications. Tomco produces a full line of quick connect and disconnect couplers for general-purpose industrial applications and more sophisticated instrumentation markets. U.S. Para Plate develops and produces high-pressure valves and regulators for aerospace and military applications. DQS and TSI manufacture and sell analytical sampling products.

We significantly expanded the breadth of our instrumentation fluid control product lines with the acquisition of Hoke in July 1998. Our largest acquisition to date, Hoke provides us with a leading line of Gyrolok® compression tube fittings, as well as instrumentation ball valves, plug valves, manifolds, metering valves and needle valves. Circle Seal and Hoke serve several common markets and we cross-market their products through their respective distribution channels. Furthermore, Hoke, with nearly 56% of its revenues derived from outside of the United States, significantly expanded our geographic marketing and distribution capabilities. We integrated the administrative and distribution activities of Circle Seal and Hoke to further reduce costs. We believe that our ability to provide various instrumentation markets with complete fluid-control solutions is enhanced by the combined product line offerings of Circle Seal, Hoke and GO Regulator.

With the acquisition of the Cryolab product line in 1995, we entered the cryogenic sector of the valve market, further enhancing our position in the instrumentation and thermal fluid controls valve business. Since then we have added Consolidated Precision Corporation (“CPC”) in 1996 and the Rockwood Swendeman product line in 2000 which collectively gave us a broader array of valve products for demanding cryogenic applications and enabled us to expand our presence in the industrial gas markets.

*Petrochemical Products Group* – The Petrochemical Products Group designs, manufactures and distributes flanged-end and threaded-end floating and trunnion ball valves, needle valves, check valves, butterfly valves, large forged steel ball valves, gate valves and pipeline closures for use in oil, gas and chemical processing and industrial applications. We believe that our Petrochemical Products Group is one of the leading producers of ball valves for the oil and natural gas markets worldwide. The Petrochemical Products Group consists primarily of the following product brand names: KF Industries; KF Contromatic; Pibiviesse; KF Telford; and Suzhou KF Valve.

The Petrochemical Products Group accounted for \$158.7 million, or 44.1%, of our net revenues for the year ended December 31, 2003.

We entered the petrochemical products market in 1978 with the formation by Watts of the industrial products division and our development of a floating ball valve for industrial and chemical processing applications. With the acquisition of KF Industries, Inc. (“KF Industries”) in July 1988, we expanded our product offerings to include floating and trunnion-supported ball valves and needle valves. KF Industries gave us entry into the oil and gas transmission, distribution and exploration markets. In 1989, we acquired Eagle Check Valve, which added check valves to our product line. Pibiviesse S.p.A. (“Pibiviesse”), based in Nerviano, Italy, was acquired in November 1994. Pibiviesse manufactures forged steel ball valves for the petrochemical market, including a complete range of trunnion-mounted ball valves. Pibiviesse’s manufacturing capabilities include valve sizes up through 60 inches in diameter, including very high pressure ratings to meet demanding international oil and gas pipeline and production requirements. In March 1998, we acquired and added Telford Valve and Specialties, Inc. (“KF Telford”) to KF Industries. KF Telford had been one of KF Industries’ largest distributors and, with its acquisition, KF Industries increased its presence in Canada, as well as introduced KF Telford’s products (check valves, pipeline closures, and specialty gate valves) through its worldwide representative network. KF Telford also has assumed the Canadian sales activities for other of our Petrochemical

## [Table of Contents](#)

Products Group companies to strengthen our overall presence in Canada. During 1999, we consolidated the industrial products division of Watts under the KF Contromatics name into KF Industries in Oklahoma City, Oklahoma. These industrial products consist of carbon steel and stainless steel ball valves, butterfly valves and pneumatic actuators that are used in a variety of industrial, pulp, paper and chemical processing applications.

We also own 60% of Suzhou KF Valve Company, Ltd. (“Suzhou KF Valve”), a joint venture located in Suzhou, People’s Republic of China. Suzhou KF Valve manufactures two-inch through twelve-inch carbon and stainless steel ball valves for us and for Suzhou Valve Factory, our joint venture partner. We sell products manufactured by Suzhou KF Valve to customers worldwide for oil and gas applications and outside the People’s Republic of China for industrial applications. Our joint venture partner and its related entities have exclusive rights to sell Suzhou KF Valve products for all industrial (i.e., non-oil and gas) applications within the People’s Republic of China and to certain customers outside the People’s Republic of China for oil and gas applications.

### **Industry**

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

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

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

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

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

### **Our Business Objectives and Strategies**

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

- Continue to build market positions;
- Improve the profitability of our business;

## [Table of Contents](#)

- Expand into various fluid control industries and markets and capitalize on integration opportunities;
- Increase product offerings; and
- Expand our geographic coverage.

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

### Products

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

<u>Product Families</u>	<u>Principal Products</u>	<u>Primary Markets Served</u>
<b>Instrumentation and Thermal Fluid Controls Products Group</b>		
Aerodyne Controls	Pneumatic manifold switches; mercury-free motion switches; pneumatic valves; control assemblies	Aerospace; medical instrumentation; military; automotive
Circle Seal Controls	Motor-operated valves; check valves; relief valves; pneumatic valves; solenoid valves; regulators	General industrial; power generation; medical; pharmaceutical; aerospace; military; natural gas vehicles
CPC-Cryolab and Rockwood Swendeman	Cryogenic control and safety relief valves; valve assemblies	Liquefied industrial gases; other high purity processing
Dopak Sampling Systems	Sampling systems for liquids, liquefied gas, and gases	Chemical; petrochemical; pharmaceutical; biotech; and food and beverage industries
GO Regulator	Pressure reducing regulators; specialized cylinder manifolds; high pressure regulators; pneumatic pressure regulators; diaphragm valves	Analytical instrumentation; chemical processing; semiconductors
Hoke	Compression tube fittings; pipefitting; instrument ball and needle valves; cylinders; cylinder valves; actuators	General industrial; analytical instrumentation; compressed natural gas; natural gas vehicles; chemical processing; semiconductors
Leslie Controls	Steam and water regulators; steam control valves; electric actuated shut-off valves; steam water heaters	General industrial and power; maritime; chemical processing; HVAC
Nicholson Steam Trap	Steam traps; condensate pumps; unions	HVAC; general industrial; industrial processing

## [Table of Contents](#)

<u>Product Families</u>	<u>Principal Products</u>	<u>Primary Markets Served</u>
<b>Instrumentation and Thermal Fluid Controls Products Group – continued</b>		
RTK and SART	Control valves; regulators; actuators; and related instrumentation products	HVAC; industrial; food and beverage; pharmaceutical
Spence Engineering	Safety and relief valves; pilot operated and direct steam regulators; steam control valves	HVAC; general industrial
SSI Equipment	Specialty strainers; check valves; butterfly valves; connectors	General industrial; chemical processing; refining; power; and HVAC
Texas Sampling	Closed loop sampling systems	Refining and pharmaceutical
Tomco Products	Pneumatic and hydraulic quick couplers and safety relief valves	General industrial and instrumentation
U.S. Para Plate	High pressure valves and regulators	Aerospace; military; industrial wash systems
<b>Petrochemical Products Group</b>		
KF Contromatics	Threaded-end and flanged-end floating ball valves; butterfly valves; pneumatic and electric actuators	Oil and gas; refining; general industrial; chemical processing
KF Industries	Threaded-end and flanged-end floating ball valves; actuators; pipeline closures; trunnion supported ball valves; needle valves; check valves	Oil and gas exploration; production; refining and transmission; maritime; chemical processing
Pibiviesse	Forged steel ball valves	Oil and gas exploration; production; refining and transmission
KF Telford Engineered Products	Mud valves; pipeline closures, check valves and specialty gate valves	Oil and gas exploration; production; refining and transmission
Suzhou KF Valve	Flanged and floating ball valves	Oil and gas exploration; production; refining and transmission; chemical processing

### **Sales and Distribution**

We sell our products to distributors and end-users primarily through commissioned representatives and through our direct sales forces. Our representative networks offer technically trained sales forces with strong relationships to key markets without fixed costs to us.

We believe that our multifaceted and well established sales and distribution channels constitute a competitive strength, providing access to all of our markets. We believe that we have good relationships with

## [Table of Contents](#)

our representatives and distributors and we continue to implement marketing programs to enhance these relationships. Ongoing distribution-enhancement programs include shortening shelf stock delivery, reducing assemble-to-order lead times, introducing new products, offering competitive pricing and increasing inventory turns.

### **Manufacturing**

We have fully-integrated and highly automated manufacturing capabilities including machining operations, assembly and testing. We also purchase machined components and finished valves to supplement our internal manufacturing capacity and to lower our overall cost of less sophisticated valve products. Our machining operations feature computer-controlled machine tools, high-speed chucking machines and automatic screw machines for machining brass, iron and steel components. We believe that our fully-integrated manufacturing capabilities of critical components are essential in the valve industry in order to control product quality, to be responsive to customers' custom design requirements and to ensure timely delivery. Product quality and performance are a priority for our customers, especially since many of our product applications involve caustic or volatile chemicals and, in many cases, involve processes that are used in the precise control of fluids. We have implemented integrated software systems at our major locations to make operations more efficient and to improve communications with our suppliers and customers.

We are committed to maintaining our manufacturing equipment at a level consistent with current technology in order to maintain high levels of quality and manufacturing efficiencies. As part of this commitment, we have spent a total of \$6.8 million, \$4.4 million, and \$5.0 million on capital expenditures for the years ended December 31, 2003, 2002, and 2001, respectively. Depreciation expense for these periods was \$9.6 million, \$10.3 million, and \$10.0 million, respectively.

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

### **Quality Control**

The majority of our products require and have been approved by applicable industry standards agencies in the United States and European markets. We have consistently advocated the development and enforcement of performance and safety standards, and are currently planning new investments and implementing additional procedures as part of our commitment to meet these standards. We maintain quality control and testing procedures at each of our manufacturing facilities in order to produce products in compliance with these standards. Additionally, most of our major manufacturing subsidiaries have acquired ISO 9000, 9001 or 9002 certification from the International Organization for Standardization and, for those in the Petrochemical Products Group, American Petroleum Institute certification.

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

## [Table of Contents](#)

### **Product Development**

We continue to develop new and innovative products to enhance our market positions. Our product development capabilities include the ability to design and manufacture custom applications to meet high tolerance or close precision requirements. For example, KF Industries has fire-safe testing capabilities, Circle Seal has the ability to meet the testing specifications of the aerospace industry and Pibiviesse can meet the tolerance requirements of sub-sea and cryogenic environments. These testing and manufacturing capabilities have enabled us to develop customer-specified applications, unique characteristics of which have been subsequently utilized in broader product offerings. Our research and development expenditures for the years ended December 31, 2003, 2002 and 2001, were \$2.4 million, \$2.8 million, and \$2.6 million, respectively.

### **Raw Materials**

The raw materials used most often in our production processes are stainless steel, carbon steel, aluminum, bronze, and brass. We purchase these materials from numerous suppliers and have not historically experienced significant difficulties in obtaining these commodities in quantities sufficient for our operations. However, these materials are subject to price fluctuations that may adversely affect our results of operations. Historically, increases in the prices of raw materials have been partially offset by increased sales prices, active materials management, project engineering programs and the diversity of materials used in our production processes.

### **Competition**

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

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

The primary competitors of our Petrochemical Products Group include: Grove/Dresser Valve (a unit of First Reserve Corporation and Odyssey Investment Partners, LLC); Cooper Cameron Corporation; Apollo (a unit of Conbraco Industries, Inc.); Jamesbury, Inc. (a unit of Metso USA which is part of the Metso Corporation); Balon; and Worcester Controls Corp. (a unit of Flowserve).

### **Trademarks and Patents**

We own patents that are scheduled to expire between 2004 and 2021 and trademarks that can be renewed as long as we continue to use them. We do not believe the vitality and competitiveness of either of our business segments as a whole depends on any one or more patents or trademarks. We own certain licenses such as software licenses, but we also do not believe that our business as a whole depends on any one or more licenses.

### **Customers, Cyclical and Seasonality**

For the year ended December 31, 2003, no single customer accounted for more than 10% of revenues for either the Instrumentation and Thermal Fluid Controls Products Group or the Petrochemical Products Group.

## [Table of Contents](#)

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

### **Backlog**

Our total order backlog was \$92.3 million as of February 24, 2004, compared to \$79.4 million as of February 24, 2003. We expect all but \$10.9 million of the backlog at February 24, 2004 will be shipped by December 31, 2004. The change in our backlog was primarily due to increased orders for major international oil and gas projects.

### **Employees**

As of December 31, 2003, our worldwide operations directly employed approximately 1,900 people, including 107 employees at our Suzhou KF Valve joint venture in the People's Republic of China. We have 71 employees in the United States who are covered by a single collective bargaining agreement. We also have 142 employees in Italy, 69 employees in France, 26 in the Netherlands, and 110 employees in Germany covered by governmental regulations or workers councils. We believe that our employee relations are good at this time.

### **Segment and Geographic Financial Data**

Financial information by segment and geographic area is incorporated herein by reference to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 16 in the notes to consolidated financial statements included in this report.

### **Government Regulation Regarding the Environment**

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

We currently do not anticipate any materially adverse impact on our business, financial condition or results of operations as a result of our compliance with federal, state, local and foreign environmental laws. However, risk of environmental liability and charges associated with maintaining compliance with environmental laws is inherent in the nature of our manufacturing operations and there is no assurance that material liabilities or charges could not arise. During the year ended December 31, 2003, we capitalized less than \$0.1 million related to environmental and safety control facilities. We expect to capitalize \$0.2 million during the year ending December 31, 2004. We also incurred and expensed \$0.5 million of charges during the year ended December 31, 2003. We expect to incur and expense \$0.6 million in the year ending December 31, 2004.

### **ITEM 2. PROPERTIES**

We maintain 16 major facilities worldwide, including 14 significant manufacturing operations located in the United States, Canada, Western Europe and the People's Republic of China. Many of these facilities contain

## [Table of Contents](#)

sales offices or warehouses from which we ship finished goods to customers, distributors and commissioned representative organizations. Our executive office is located in Burlington, Massachusetts.

The Instrumentation and Thermal Fluid Controls Products Group has facilities located in the United States, Canada, Germany, France, the Netherlands, and the United Kingdom. Properties in Ronkonkoma, New York; Berlin, Connecticut; Spartanburg, South Carolina; and Auburn, California are leased. The Petrochemical Products Group has facilities located in the United States, Canada, Italy and the People's Republic of China. Properties in Nerviano, Italy; Naviglio, Italy; Edmonton, Alberta, Canada; a distribution center in Oklahoma City, Oklahoma; and Suzhou, People's Republic of China are leased. Certain of our facilities are subject to mortgages and collateral assignments under loan agreements with long-term lenders.

In general, we believe that our properties, including machinery, tools and equipment, are in good condition, are well maintained, and are adequate and suitable for their intended uses. Our manufacturing facilities generally operate five days per week on one or two shifts. We believe our manufacturing capacity could be increased by working additional shifts and weekends. This utilization is subject to change as a result of increases or decreases in orders.

### **ITEM 3. LEGAL PROCEEDINGS**

We, like other worldwide manufacturing companies, are subject to a variety of potential liabilities connected with our business operations, including potential liabilities and expenses associated with possible product defects or failures and compliance with environmental laws. We maintain liability insurance coverage which we believe to be consistent with industry practices. Nonetheless, such insurance coverage may not be adequate to protect us fully against substantial damage claims, which may arise from product defects and failures or from environmental liability.

Like many other manufacturers of fluid control products, we have been named as defendants in a growing number of product liability actions brought on behalf of individuals who seek compensation for their alleged exposure to airborne asbestos fibers. In particular, our subsidiaries, Leslie, Spence, and Hoke collectively have been named as defendants or third-party defendants in asbestos related claims brought on behalf of approximately 22,000 plaintiffs against anywhere from 50 to 400 defendants. In some instances, we also have been named individually and/or as successor in interest to one or more of these subsidiaries. These cases have been brought in state courts in Alabama, California, Connecticut, Georgia, Maryland, Michigan, Mississippi, New Jersey, New York, Rhode Island, Texas, Utah, and Washington, with the vast majority of claimants having brought their claims in Mississippi. The cases brought on behalf of the vast majority of claimants seek unspecified compensatory and punitive damages against all defendants in the aggregate. However, the complaints filed on behalf of claimants who do seek specified compensatory and punitive damages typically seek millions or tens of millions of dollars in damages against the aggregate of defendants.

Any components containing asbestos formerly used in Leslie, Spence and Hoke products were entirely internal to the product and, we believe, would not give rise to ambient asbestos dust during normal operation or during normal inspection and repair procedures. Moreover, to date, our insurers have been paying the vast majority of the costs associated with the defense of these actions, particularly with respect to Spence and Hoke for which insurance has paid all defense costs to date. As we previously have disclosed, due to certain gaps in historical insurance coverage, Leslie Controls had been responsible for in excess of 40% of the defense costs associated with asbestos actions. However, during 2003 we discovered evidence of additional policy coverage. As a result, we recently negotiated a revised cost sharing understanding with Leslie's insurers which results in a lowering of Leslie's responsibility to 29% of defense costs. In light of the foregoing, we believe that we have minimal, if any, liability with respect to the vast majority of asbestos cases and that these cases, in the aggregate,

## [Table of Contents](#)

will not have a material adverse effect on our financial condition, results of operations or cash flows. However, due to the nature and number of variables associated with asbestos related claims, such as the rate at which new claims may be filed; the availability of insurance policies to continue to recover certain of our costs relating to the defense and payment of these claims; the impact of bankruptcies of other companies currently or historically defending asbestos claims including our co-defendants; the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case; the impact of potential changes in legislative or judicial standards; the type and severity of the disease alleged to be suffered by each claimant; and increases in the expense of medical treatment, we are unable to reliably estimate the ultimate costs to us of these claims.

During the fourth quarter of 2003, we entered into a monetary settlement with the United States Customs Service in order to resolve its previously disclosed investigation of our KF Industries subsidiary. This settlement did not have a material financial impact on our financial statements, and we now consider this matter to be closed.

We are currently a party to or otherwise involved in various administrative or legal proceedings under federal, state or local environmental laws or regulations involving a number of sites, in some cases as a participant in a group of potentially responsible parties, referred to as PRPs. Two of these sites, the Sharkey and Combe Landfills in New Jersey, are listed on the National Priorities List. With respect to the Sharkey Landfill in New Jersey, we have been allocated 0.75% of the remediation costs, an amount that is not material to us. With respect to the Combe Landfill, we have settled both the Federal Government's claim and the State of New Jersey's claim for an amount that is immaterial to us. Moreover, our insurers have covered defense and settlement costs to date with respect to the Sharkey and Combe Landfills. In addition, we have also been named as a PRP with respect to the Solvent Recovery Service of New England site and the Old Southington landfill site, both in Connecticut. These sites are also on the National Priorities List but, with respect to both sites, we have the right to indemnification from the prior owners of the affected subsidiaries. We also have been identified as a PRP with respect to the Lightman Drum Company site in New Jersey and, in this matter; we also have the right to indemnification from the former owners of the affected subsidiary. Based on currently available information, we believe that any share of clean-up costs at these sites attributable to us will not be material, particularly given our indemnification rights against the respective former owners.

We have reviewed all of our pending judicial and legal proceedings, reasonably anticipated costs and expenses in connection with such proceedings, and availability and limits of our insurance coverage, and we have established reserves that we believe are appropriate in light of those outcomes that we believe are probable and estimable at this time.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

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

**PART II**

**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is traded on the New York Stock Exchange under the symbol "CIR". Quarterly share prices and dividends declared and paid are incorporated herein by reference to Note 17 to the consolidated financial statements included in this report.

During the first quarter of 2004, we declared a dividend of \$0.0375 per outstanding common share payable on March 12, 2004 to shareholders of record on February 27, 2004.

Our board of directors is responsible for determining our dividend policy. Although we currently intend to continue paying cash dividends, the timing and level of such dividends will necessarily depend on our board of directors' assessments of earnings, financial condition, capital requirements and other factors, including restrictions, if any, imposed by our lenders.

As of February 27, 2004, there were 15,307,527 shares of our common stock outstanding and we had approximately 114 holders of record of our common stock. We believe the number of beneficial owners of our common stock was substantially greater on that date.

The following table provides information as of December 31, 2003 regarding our shares of common stock that may be issued under our existing equity compensation plans, including the 1999 Stock Option and Incentive Plan (the "1999 Stock Plan"), and the Management Stock Purchase Plan, which is a component of the 1999 Stock Plan. The table sets forth the total number of shares of our common stock issuable upon the exercise of outstanding options as of December 31, 2003, and the weighted average exercise price of these options.

**Equity Compensation Plan Information**

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted Average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plan (excluding securities referenced in column (a)) (c)</u>
Equity compensation plans approved by security holders...	1,170,214(1)	\$ 12.49(2)	566,050
Equity compensation plans not approved by security holders...	-	-	-
<b>Total</b>	<b>1,170,214</b>	<b>\$ 12.49</b>	<b>566,050</b>

- (1) Does not include 323,696 options with a weighted average exercise price of \$11.47, which were issued at the time of our spin-off from Watts to replace options previously granted by Watts to individuals who became our employees.
- (2) Does not include information about outstanding restricted stock units under the 1999 Plan because such units will convert to common shares on a one-to-one basis. See Note 11 to the consolidated financial statements for further information concerning our 1999 Stock Plan, in general, and for restricted stock units in particular.

**ITEM 6. SELECTED FINANCIAL DATA**

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

The consolidated statements of operations and consolidated statements of cash flows data for the years ended December 31, 2003, 2002 and 2001, and the consolidated balance sheet data as of December 31, 2003 and 2002 are derived from, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this report. The consolidated statements of operations and consolidated statements of cash flows data for the six months ended December 31, 1999 and fiscal year ended June 30, 1999, and the consolidated balance sheet data as of December 31, 2000 and 1999 and as of June 30, 1999, are derived from our audited consolidated financial statements not included in this report.

The selected, unaudited pro forma financial data for 1999 included in the following table are derived from the respective audited and unaudited consolidated financial statements for those years. The pro forma presentation for 1999 includes estimated additional administrative expense that would have been incurred by CIRCOR as a publicly owned, independent company. In addition, estimated incremental interest expense for estimated outstanding borrowings under the CIRCOR and other credit facilities is provided.

**SELECTED FINANCIAL DATA**  
(In thousands, except per share data)

	Years Ended December 31,					Six Months Ended December 31,		Fiscal Years Ended June 30,		
	2003 (1)	2002 (1)	2001 (1)	2000 (1)	Pro Forma 1999 (1)(2)	1999 (1)	Pro Forma 1999 (1)(2)	1999 (1)	Pro Forma 1999 (2)	1999
					(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)	
<b>Statement of Operations Data:</b>										
Net revenues	\$ 359,453	\$ 331,448	\$ 343,083	\$ 316,863	\$ 314,726	\$ 314,726	\$ 157,265	\$ 157,265	\$ 324,258	\$ 324,258
Gross profit	105,512	98,285	103,477	95,791	100,496	100,496	48,652	48,652	103,646	103,646
Goodwill amortization expense	–	–	2,737	2,528	2,662	2,662	1,422	1,422	2,779	2,779
Operating income	29,987	30,374	33,617	27,636	27,627	27,815	13,785	13,846	29,297	29,550
Income before interest and taxes	30,824	31,060	33,096	26,876	17,059	18,152	13,325	13,386	29,526	29,779
Net income	17,873	15,577	15,596	10,560	9,894	10,550	4,650	4,880	11,736	12,510
<b>Balance Sheet Data:</b>										
Total assets	\$ 423,863	\$ 390,734	\$ 386,121	\$ 347,062	\$ 367,085	\$ 367,085	\$ 367,085	\$ 367,085	\$ 362,370	\$ 359,043
Total debt (3)	61,059	77,990	97,662	91,533	125,127	125,127	125,127	125,127	116,248	26,582
Shareholders' equity	275,160	243,659	222,440	191,181	183,409	183,409	183,409	183,409	169,590	259,256
Total capitalization	336,219	321,649	320,102	282,714	308,536	308,536	308,536	308,536	285,838	285,838
<b>Other Financial Data:</b>										
Cash flow provided by (used in):										
Operating activities	\$ 58,242	\$ 24,925	\$ 44,847	\$ 31,700	\$ (519)	\$ 137	\$ (15,059)	\$ (14,829)	\$ 19,754	\$ 20,528
Investing activities	(20,981)	(23,241)	(14,501)	5,827	(21,762)	(21,762)	(5,171)	(5,171)	(82,704)	(82,704)
Financing activities	(19,113)	(20,504)	18,618	(34,683)	24,245	23,589	18,666	18,436	63,719	62,945
Net interest expense	5,151	6,721	7,102	9,276	9,823	8,918	4,864	4,542	9,845	8,808
Capital expenditures	6,823	4,418	4,950	3,743	11,984	11,984	4,557	4,557	9,499	9,499
Diluted earnings per common share (4)	\$ 1.14	\$ 1.00	\$ 1.04	\$ 0.78	n/a	n/a	n/a	n/a	n/a	n/a
Diluted weighted average common shares outstanding (4)	15,675	15,610	15,023	13,480	n/a	n/a	n/a	n/a	n/a	n/a
Cash dividends declared per common share	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.1125	\$ –	\$ –	\$ –	\$ –	n/a	n/a

**Notes:**

- (1) The statement of operations data for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 and the six months ended December 31, 1999 includes, respectively, \$1.4 million, \$0.7 million, \$0.2 million, \$1.9 million, \$0.7 million and \$0.7 million of special charges associated with the closure, consolidation and reorganization of certain manufacturing plants.
  - (2) As adjusted for the spin-off for: the assumption by CIRCOR of selected indebtedness from Watts; our credit facility and the placement of \$75.0 million of senior unsecured notes.
  - (3) Includes capitalized leases of: \$0.1 million; \$0.1 million; \$0.6 million; and \$4.1 million as of December 31, 2003, 2000 and 1999 and June 30, 1999, respectively.
  - (4) Diluted earnings per common share and diluted weighted average common shares outstanding are applicable only for quarterly and annual periods ended after December 31, 1999, since we were not a publicly-owned company with a capital structure of our own until after the October 18, 1999 spin-off.
- n/a Not applicable

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**Overview**

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

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

Apart from monitoring our key competitors, our businesses pay close attention to changes in market conditions, customer order rates, operating margins, and levels of working capital in order to help manage and improve financial results.

Our growth strategy includes both internal product development and strategic acquisitions that complement and extend our current offering of engineered flow control products. During the last three and one half years, we have made seven acquisitions that extended the product offerings of our Instrumentation & Thermal Fluid Controls Products segment. In 2003, our acquisitions of DQS International B.V. and Texas Sampling, Inc. provided us with a larger presence in the analytical sampling market.

Regarding 2003 financial results, we were able to make progress in a number of areas even though end-user demand in most of our markets remained weak. Our business teams responded well to the

## [Table of Contents](#)

prolonged economic slowdown by sticking to the basics: cutting costs, increasing efficiencies and consolidating operations. Consolidated net revenues increased 8% to \$359.5 million, while net income grew by 15% to \$17.9 million. Our higher earnings resulted from the contributions of acquisitions purchased in late 2002, the much improved profitability of our Petrochemical Products segment, foreign exchange gains, and income tax benefits. Cash flow was strong, as we generated a record \$58.2 million of cash provided by operating activities. We continued to cut inventories, allowing us to reduce debt, complete two acquisitions, and finish the year in a position in which we have more cash than debt.

### **Basis of Presentation**

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

In March 2002, we transferred SSI Equipment Inc. (“SSI”) from the Petrochemical Products segment to the Instrumentation and Thermal Fluid Controls Products segment. We believe that this change more accurately reflects the products and markets that SSI serves. Prior periods have been restated to reflect this transfer and net revenues, operating income and identifiable assets are not materially different with this reclassification.

### **Critical Accounting Policies**

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

#### *Revenue Recognition and Allowance for Sales Returns*

Revenue is recognized when products are shipped and title has passed to the customer provided that no significant post-delivery obligations remain and collection of the resulting receivable is reasonably assured. Allowances for sales returns are recorded as a reduction of revenues based upon historical experience, return policies and contractual product return rights granted to customers. Adjustments to the allowance account are made as new information becomes available. Shipping and handling costs invoiced to customers are recorded as components of revenues and the associated costs are recorded as cost of sales.

#### *Allowance for Doubtful Accounts*

Our trade accounts receivable balance, net of allowance for doubtful accounts, was \$64.8 million as of December 31, 2003, compared to \$56.1 million as of December 31, 2002. The allowance for doubtful accounts as of December 31, 2003 was \$2.1 million, compared with \$2.0 million as of December 31, 2002. The allowance is based on our assessment of the collectibility of customer accounts. We regularly review the allowance by considering factors such as historical experience, credit quality, and age of the accounts receivable balances, and current economic conditions that may affect a customer’s ability to pay.

## [Table of Contents](#)

Our provision for doubtful accounts was \$0.3 million, \$0.0 million, and \$0.8 million for 2003, 2002, and 2001, respectively. If a major customer's creditworthiness deteriorates, or if actual defaults are higher than our historical experience, or if other circumstances arise, our estimates of the recoverability of amounts due to us could be overstated, and additional provisions could be required, which could have an adverse impact on our selling, general and administrative expenses.

### *Allowance for Inventory*

Our net inventory balance was \$97.3 million as of December 31, 2003, compared to \$110.3 million as of December 31, 2002. Our inventory allowance as of December 31, 2003 was \$7.9 million, compared with \$7.6 million as of December 31, 2002. We provide inventory allowances for excess, slow-moving, and obsolete inventories determined primarily by future demand forecasts. The allowance is measured as the difference between the cost of the inventory and market, based upon assumptions about future demand, and charged to the provision for inventory, which is a component of our cost of revenues. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Our provision for inventory obsolescence was \$4.3 million, \$3.4 million, and \$3.4 million for 2003, 2002, and 2001, respectively. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of changing technology and customer requirements, we could be required to increase our inventory allowances and our gross margin could be adversely affected. Inventory management remains an area of focus as we balance the need to maintain adequate inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of changing technology and customer requirements.

### *Purchase Accounting*

In connection with our acquisitions, we assess and formulate a plan related to the future integration of the acquired entity. This process begins during the due diligence process and is concluded within twelve months of the acquisition. We accrue estimates for certain costs, related primarily to personnel reductions and facility closures or restructurings, anticipated at the date of acquisition, in accordance with Financial Accounting Standards Board ("FASB") Statement No. 141 "Business Combination" and Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." Adjustments to these estimates are made up to 12 months from the acquisition date as plans are finalized. To the extent these accruals are not utilized for the intended purpose, the excess is recorded as a reduction of the purchase price, typically by reducing recorded goodwill balances. Costs incurred in excess of the recorded accruals are expensed as incurred.

### *Impairment Analysis*

Our methodology for allocating the purchase price relating to purchase acquisitions is determined through established valuation techniques for industrial manufacturing companies. Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. The goodwill recorded on the consolidated balance sheets as of December 31, 2003 was \$111.4 million, compared with \$100.4 million as of December 31, 2002. We perform goodwill impairment tests on an annual basis and between annual tests in certain circumstances for each reporting unit, if triggering events indicate impairment may have occurred. In assessing the fair value of goodwill, we use our best estimates of future cash flows of the reporting unit, the discount rate, and the estimated terminal value for each reporting unit. If these estimates or related projections change in the future due to changes in industry and market conditions, we may be required to record impairment charges. Based on impairment tests performed using independent third-party valuations, there was no impairment in our goodwill in 2003 and 2002.

## [Table of Contents](#)

Other long-lived assets include property, plant, and equipment and intangibles with definite lives. We perform impairment analyses of our other long-lived assets whenever events and circumstances indicate that they may be impaired. When the undiscounted future cash flows are expected to be less than the carrying value of the assets being reviewed for impairment, the assets are written down to fair market value.

### *Income Taxes*

Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance. Our effective tax rates differ from the statutory rate due to the impact of acquisition-related costs, research and product development tax credits, state taxes, and the tax impact of non-U.S. operations. Our effective tax rate was 30.4%, 36.0%, and 40.0% for 2003, 2002, and 2001, respectively.

We believe past estimates of our effective rate were reasonable and accurate, being lowered after 2001 when goodwill amortization ended. The effective tax rate was again lowered to 30.4% for the year ended December 31, 2003 from 36.0% for the year ended December 31, 2002. This rate reduction was the result of income tax benefits recorded in the fourth quarter 2003 totaling \$1.2 million, which included tax credits for product development and research activities, the majority of which related to prior years; and a reduction of income tax liability for certain items. The benefits recorded in the fourth quarter of 2003 coincided with the completion of the Internal Revenue Service's examination of our U.S. federal income tax returns for the two and one half months ended December 31, 1999, and the years December 31, 2000 and 2001. For 2004, we expect an effective income tax rate of 35%, including the estimated benefit of the product development and research tax credit for 2004. Nonetheless, 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. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

We have recorded a valuation allowance of \$0.8 million as of December 31, 2003, due to uncertainties related to our ability to utilize deferred tax assets, primarily consisting of certain 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 further or future results of operations are less than expected, future assessments may result in a determination that some or all of the net deferred tax assets are not realizable. As a result, we may need to establish additional tax valuation allowances for all or a portion of the net deferred tax assets, which may have a material adverse effect on our business, results of operations and financial condition.

### *Legal Contingencies*

We are currently involved in various legal claims and legal proceedings (some of which may involve substantial dollar amounts). Periodically, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure can be reasonably estimated. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending

## [Table of Contents](#)

claims and litigation and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our consolidated results of operations and financial position. For more information related to our outstanding legal proceedings, see "Contingencies" in Note 14 of the accompanying consolidated financial statements.

### *Pension Benefits*

We maintain pension benefit plans for our employees in the United States. 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. For 2003, the expected long-term rate of return on plan assets used to estimate pension expenses was 8.75%, compared with 9.0% for 2002. The discount rate used to estimate the net pension expenses for 2003 was 6.75% compared to 7.5% in 2002. The lower rates reflected the decline in global capital markets and interest rates.

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

Unrecognized actuarial gains and losses are being recognized over approximately a twelve-year period, which represents the weighted average expected remaining service life of the employee group. Unrecognized actuarial gains and losses arise from several factors including experience and assumption changes in the obligations and from the difference between expected returns and actual returns on assets. At the end of 2003, we had unrecognized net actuarial losses of \$5.3 million.

The fair value of the defined benefit plan assets at December 31, 2003 exceeded the estimated accumulated benefit obligations as a net result of the increases in global capital markets, cash contributions from the company, partially offset by the lower interest rates.

During 2003, we made \$3.0 million in cash contributions to our defined benefit pension plans. In 2004, we expect voluntary cash contributions to be from \$1.0 million to \$3.0 million, although global capital market and interest rate fluctuations will impact future funding requirements.

For 2004, our expected rate of return on plan assets remains unchanged from 2003 for pension expenses. However, for 2004, we lowered our discount rate 75 basis points to 6.0% on a weighted average basis for pension expenses given the global interest rates. We will continue to evaluate our expected long-term rates of return on plan assets and discount rates at least annually and make adjustments as necessary, which could change the pension and post-retirement obligations and expenses in the future. If the actual operation of the plans differs from the assumptions, additional contributions by us may be required. If we are required to make significant contributions to fund the defined benefit plans, reported results could be materially and adversely affected and our cash flow available for other uses may be reduced.

### **Year Ended December 31, 2003 Compared to the Year Ended December 31, 2002**

In 2003, many of the general industrial end markets we serve were in a continuing slump. However, the stronger foreign currencies such as the Euro had a positive effect on our 2003 financial results as well as the full year impact of acquisitions, plus the continued success in fulfilling orders on large international oil & gas projects, particularly in the Middle East. The majority of our businesses that serve the general industrial markets concentrated in 2003 on trimming spending proportional to their declining customer order rates, reducing

## [Table of Contents](#)

inventories, identifying opportunities to consolidate facilities, and developing new products and improving customer service levels to maintain and increase market share. As a result of these and other factors, 2003 revenues and net income increased although operating margin declined in 2003 from 2002.

The following tables set forth the results of operations, percentage of net revenues and the yearly percentage change in certain financial data for the years ended December 31, 2003 and 2002 (In thousands):

	Year Ended December 31,				% Change
	2003		2002		
Net revenues	\$ 359,453	100.0%	\$ 331,448	100.0%	8.4%
Cost of revenues	253,941	70.6	233,163	70.3	8.9
Gross profit	105,512	29.4	98,285	29.7	7.4
Selling, general and administrative expenses	74,162	20.6	67,166	20.3	10.4
Special charges	1,363	0.5	745	0.2	83.0
Operating income	29,987	8.3	30,374	9.2	(1.3)
Other expense:					
Interest expense, net	5,151	1.4	6,721	2.1	(23.4)
Other (income) expense, net	(837)	(0.2)	(686)	(0.2)	22.0
Income before income taxes	25,673	7.1	24,339	7.3	5.5
Provision for income taxes	7,800	2.1	8,762	2.6	(11.0)
Net income	\$ 17,873	5.0%	\$ 15,577	4.7%	14.7%

Net revenues for the year ended December 31, 2003 increased by approximately \$28.0 million, or 8.4%, to \$359.5 million compared to \$331.4 million for the year ended December 31, 2002. The increase in net revenues for the year ended December 31, 2003 was attributable to the following (In thousands):

Segment	2003	2002	Total Change	Acquisitions	Operations	Foreign Exchange
Instrumentation & Thermal Fluid Controls	\$ 200,775	\$ 190,524	\$ 10,251	\$ 12,996	\$ (9,545)	\$ 6,800
Petrochemical	158,678	140,924	17,754	–	5,323	12,431
Total	\$ 359,453	\$ 331,448	\$ 28,005	\$ 12,996	\$ (4,222)	\$ 19,231

The Instrumentation and Thermal Fluid Controls Products segment accounted for 55.9% of net revenues for the year ended December 31, 2003 compared to 57.5% for the year ended December 31, 2002. The Petrochemical Products segment accounted for 44.1% of net revenues for the year ended December 31, 2003 compared to 42.5% for the year ended December 31, 2002.

Instrumentation and Thermal Fluid Controls Products revenues increased \$10.3 million, or 5.4%, for the year ended December 31, 2003. The increase in revenues was the net result of several factors. Revenues increased an incremental \$13.0 million from four acquisitions, Tomco and U.S. Para Plate in October 2002 plus DQS International in November 2003 and Texas Sampling in December 2003. Revenues also increased \$6.8 million resulting from the strengthened Euro, translating the revenues of our European business units into higher US dollar amounts in 2003. Revenues from general industrial instrumentation markets decreased \$4.4 million, primarily due to reduced sales volume caused by weak economic conditions in chemical processing, power generation, commercial aerospace, medical OEM, and other general industrial instrumentation markets. Steam and HVAC markets were also weak and contributed to lower 2003 sales by \$5.1 million. For 2004, we

## [Table of Contents](#)

expect a modest increase in orders on slight improvement in general economic conditions for markets we serve such as aerospace and general industrial instrumentation. We also expect 2004 to benefit from incremental revenue from DQS and Texas Sampling approximating \$8 million to \$9 million in total.

Petrochemical Products revenues increased by \$17.8 million, or 12.6%, for the year ended December 31, 2003. The increase in revenues was the net result of several factors. Revenues increased \$12.4 million resulting from the strengthened Euro and Canadian dollar, translating the revenues of our Italian and Canadian business units into higher US dollar amounts in 2003. Revenues also increased approximately \$10.6 million at our Italian subsidiary, Pibiviesse, as it was very successful winning and fulfilling orders for large international oil and gas projects, a majority of which were for customers in the Middle East. Revenues decreased by \$5.2 million at our North American operations, principally due to reduced oil and gas drilling and production activity and the short cycle maintenance, repair and overhaul ("MRO") business in North America, and lower sales in 2003 from customer projects in the Pacific Rim and South American regions. Our expectations for 2004 are that the large international oil and gas project market that this segment serves will continue to be positive as projects continue to expand the production of oil and gas reserves, both on land and sub-sea; expand distribution pipelines; and increase liquid natural gas production facilities. We expect 2004 revenues from the North American market to provide a modest increase over 2003 as rig counts have increased in the later months of 2003 and some energy market analysts have projected average rig counts to be higher in 2004 compared to 2003.

Gross profit increased \$7.2 million, or 7.4%, to \$105.5 million for the year ended December 31, 2003 compared to \$98.3 million for the year ended December 31, 2002. Gross margin decreased 30 basis points to 29.4% for the year ended December 31, 2003 from 29.7% for the year ended December 31, 2002.

Gross profit for the Instrumentation and Thermal Fluid Controls Products segment increased \$0.9 million from 2002 and was the net result of several factors. Gross profit increased \$5.6 million from the incremental contribution of the four acquisitions, Tomco, U.S. Para Plate, DQS International, and Texas Sampling. Gross profit also increased \$2.0 million from the foreign exchange effect of the stronger Euro in 2003. Gross profit also declined \$6.7 million which was the cumulative decrease from our ongoing business units in this segment. This segment's gross margin decreased 130 basis points to 33.5% in 2003 due to the reduced sales volume at the ongoing business units, a shift in the mix of sales to lower margin products and fewer sales into higher margin commercial aerospace, medical OEM, marine, power generation, and HVAC markets; and increased unabsorbed manufacturing costs largely due to scaling back production in conjunction with the successful efforts to lower inventory levels. This segment also nearly completed two facility closings in the fourth quarter of 2003. The Tomco Products operation was moved into our Hoke-US plant and the nearly complete move of the SSI Equipment operation into the Spence Engineering plant was finalized in February 2004. These two facility consolidations incurred extra internal spending for training, re-stocking and start-up costs which were expensed. Additional factors that decreased 2003 gross profit and margin were increased inventory obsolescence provision on specific product lines and severe pricing competition in certain product lines. We are expecting the gross margin in 2004 to improve modestly from 2003.

Expected 2004 improvements include the savings from the two plant closings in late 2003, non-repeating 2003-only expenses, a modest rise in customer orders in aerospace and general industrial instrumentation markets, but partially offset by continued cost escalation in insurance and employee benefit programs and possibly by raw material price increases as certain metal prices have begun to rise in early 2004.

Gross profit for the Petrochemical Products segment increased \$6.3 million for the year ended December 31, 2003 compared to the year ended December 31, 2002. The net gross profit increase was the net result of several factors. Gross profit increased \$4.6 million on 2003's higher sales volume for large international oil and gas projects. Gross profit also increased \$3.3 million resulting from the strengthened Euro and Canadian dollar

## [Table of Contents](#)

in 2003. Gross profit decreased \$1.6 million in North America caused by lower product sales volume for higher margin maintenance and repair orders, competitive price reductions and higher insurance costs, partially offset by certain manufacturing and purchased inventory cost reductions. Gross margin in this segment increased 140 basis points to 24.1% in 2003. The gross margin improvement was due to: increased international oil and gas project shipment volume and improved pricing in our overseas markets; and reduced costs of sale resulting from our foreign sourcing program. These improvements to gross margin were partially offset by increased unabsorbed manufacturing costs resulting from decreased production volume that could not be avoided in our effort to reduce our inventory levels in our North American manufacturing operations. In 2004, we expect this segment to improve slightly its gross margin. Gross margin in 2004 is expected to benefit from continued foreign sourcing for lower cost inventory, the full year benefit of discretionary expense reductions in 2003, and a modest increase in sales volume, partially offset by competitive pricing and expected cost escalation in insurance and employee benefit programs.

Selling, general and administrative expenses increased \$7.0 million, or 10.4 %, to \$74.2 million for the year ended December 31, 2003 compared to \$67.2 million for the year ended December 31, 2002. Selling, general and administrative expenses for the Instrumentation and Thermal Fluid Controls Products segment increased by \$6.4 million. This net increase was the result of: \$3.7 million in incremental expense from our four acquisitions, Tomco, USPP, DQS and Texas Sampling; a \$1.3 million increase due to changes in foreign exchange rates; and \$1.4 million increase from higher variable compensation costs, legal fees, and adjustments to the local statutory financial statements of two European subsidiaries.

Selling, general and administrative expenses for the Petrochemical Products segment increased \$0.9 million, net of a \$1.4 million increase from stronger foreign exchange rates changes offset by \$0.5 million lower expenses predominately in our North American operations which have been aggressively reducing their cost structures.

Corporate general and administrative expenses decreased \$0.3 million in 2003 from 2002. The decrease in 2003 was the net result of lower fringe benefit and corporate development expenses partially offset by higher variable compensation and professional fees. In 2004, we expect an increase in corporate expenses principally due to the costs associated with the implementation of certain corporate governance programs such as the full year cost of an internal audit capability required by the New York Stock Exchange and compliance with Section 404 of the Sarbanes Oxley Act of 2002 which involves documenting and testing internal financial controls.

Special charges in 2003 totaled \$1.4 million compared to \$0.7 million in 2002. These charges were associated with the closure, consolidation and reorganization of certain of our North American manufacturing operations. Special charges were expensed in the periods incurred.

The Instrumentation and Thermal Fluid Controls Products segment had approximately \$0.9 million of special charges in 2003 and none in 2002. During the fourth quarter of 2003, this segment closed its Tomco manufacturing facility in Painesville, Ohio and consolidated its operation into our existing Hoke manufacturing plant in Spartanburg, South Carolina. Also during the fourth quarter of 2003, this segment nearly completed the consolidation of its SSI Equipment operation from Burlington, Ontario, Canada into its Spence Engineering plant in Walden, New York affecting. The 2003 special charges consisted of \$0.3 million of severance costs, for the 99 employees that were affected, and \$0.6 million of exit costs. The Petrochemical Products segment recorded special charges of \$0.5 million in 2003 and \$0.7 million in 2002. Its 2003 charges were for \$0.2 million of accrued severance for the announced transfer of the manufacturing capability at its Telford operations affecting 17 employees, and the resulting consolidation into a U.S. plant, plus the approximately \$0.4 million write down to market value of an unused U.S. warehouse now held for sale. Its 2002 special charges consisted of \$0.3 million of

## [Table of Contents](#)

manufacturing equipment write-offs, \$0.2 million of severance costs for 16 employees and \$0.2 million of exit costs principally related to two North American leased facilities that were closed.

The accrued liability for severance and exit costs to be paid subsequent to December 31, 2003 is \$0.3 million. We anticipate that an additional \$0.7 million in special charges will be incurred and recorded during the first half of 2004. Our estimate for this additional charge is exclusive of any gain or loss on the sale of the real estate that may be realized in connection with the closure and consolidation of the U.S. Para Plate operation in the Instrumentation and Thermal Fluid Controls Products segment and the relocation of the Telford manufacturing operation in the Petrochemical Products segment.

The change in operating income for the year ended December 31, 2003 compared to the year ended December 31, 2002 was as follows (In thousands):

<u>Segment</u>	<u>2003</u>	<u>2002</u>	<u>Total Change</u>	<u>Acquisitions</u>	<u>Operations</u>	<u>Foreign Exchange</u>
Instrumentation & Thermal Fluid Controls	\$ 22,218	\$ 28,614	\$ (6,396)	\$ 1,893	\$ (8,332)	\$ 43
Petrochemical	15,151	9,480	5,671	–	3,866	1,805
Corporate	(7,382)	(7,720)	338	–	338	–
<b>Total</b>	<b>\$ 29,987</b>	<b>\$ 30,374</b>	<b>\$ (387)</b>	<b>\$ 1,893</b>	<b>\$ (4,128)</b>	<b>\$ 1,848</b>

Operating income for the year ended December 31, 2003 was \$30.0 million, a decrease of \$0.4 million or 1.3% from \$30.4 million reported for the year ended December 31, 2002.

Operating income for the Instrumentation and Thermal Fluid Controls Products segment decreased \$6.4 million, or 22.4%, from 2002. This decrease was primarily attributable to: lower sales of product into general industrial, aerospace, marine, medical OEM, HVAC, and power generation markets; a shift in the mix of sales to lower margin products; severe pricing competition in certain product lines; adjustments to the local statutory financial statements for two European subsidiaries; increased inventory obsolescence provisions; a rise in legal, insurance and pension expense; charges to consolidate two facilities; and increased unabsorbed manufacturing costs. Increases to operating income came from incremental contributions from the acquisitions of Tomco and U.S. Para Plate, and the favorable effect of foreign currency exchange rate changes.

Operating income for the Petrochemical Products segment increased \$5.7 million, or 59.8%, for the year ended December 31, 2003, primarily due to increased product shipments and pricing for large, international oil and gas projects in our overseas businesses; favorable effect of foreign currency exchange rate changes; and reduced costs of revenues resulting from the international sourcing program. These gains were partially offset by lower North American manufacturing production volume resulting in unabsorbed manufacturing costs. Corporate spending in 2003 was lower by \$0.3 million compared to 2002, primarily due to lower fringe benefit and corporate development expenses, which also contributed to the improved operating income.

Net interest expense decreased \$1.6 million to \$5.2 million for the year ended December 31, 2003 compared to \$6.7 million for the year ended December 31, 2002. The decrease is primarily related to the lower outstanding balance of our senior unsecured notes in 2003, reduced costs associated with the amendment of our unsecured revolving credit facility and the lower current year interest rates associated with our \$12.3 million of outstanding industrial revenue bonds. Interest income decreased \$0.2 million to \$0.8 million for the year ended December 31, 2003 compared to \$1.0 million for 2002. This decrease is the result of lower average levels of cash on hand during the current year, due to fourth quarter 2002 acquisitions of Tomco and USPP and the

## [Table of Contents](#)

fourth quarter 2003 acquisitions of DQS and Texas Sampling. Additionally, the current year lower interest rate environment has also reduced the returns on invested cash.

The effective tax rate decreased 5.6 percentage points to 30.4% for the year ended December 31, 2003 from 36.0% for the year ended December 31, 2002. This rate reduction was the result of income tax benefits recorded in the fourth quarter of 2003 totaling \$1.2 million, which included tax credits for product development and research activities, the majority of which related to prior years and a reduction of our income tax liability for certain items. The benefits recorded in the fourth quarter of 2003 coincided with the completion of the Internal Revenue Service's examination of our U.S. federal income tax returns for the two and one half months ended December 31, 1999, and the years ended December 31, 2000 and 2001. For 2004, we expect an effective income tax rate of 35%, including the estimated benefit of the product development and research tax credit for 2004.

Net income increased \$2.3 million or 14.7% to \$17.9 million for the year ended December 31, 2003 compared to \$15.6 million for the year ended December 31, 2002. This net increase is primarily attributable to: the effect of favorable foreign exchange rate gains; incremental income generated by our Petrochemical segment, and Tomco and U.S. Para Plate acquired in the fourth quarter of 2002; lower net interest expense; and the income tax benefits; partially offset by reduced gross profit and gross margins due to lower sales in certain markets and unabsorbed manufacturing costs.

For all of 2004, we expect revenues may be slightly higher from 2003 due to an anticipated but gradual improvement in general industrial market conditions, plus the full year impact of our fourth quarter 2003 acquisitions. We expect our operating margins in 2004 to rise slightly in the Instrumentation and Thermal Fluid Controls Product Group from 2003, while the Petrochemical Products Group is expected to stay steady near 10%. Both product groups could be affected by increased competitive pricing and certain commodity metal prices increasing their cost of sales.

### Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

The following tables set forth the results of operations, percentage of net revenues and the yearly percentage change in certain financial data for the years ended December 31, 2002 and 2001 (In thousands):

	Year Ended December 31,				% Change
	2002		2001		
Net revenues	\$ 331,448	100.0%	\$ 343,083	100.0%	(3.4)%
Cost of revenues	233,163	70.3	239,606	69.8	(2.7)
Gross profit	98,285	29.7	103,477	30.2	(5.0)
Selling, general and administrative expenses	67,166	20.3	66,919	19.5	0.4
Goodwill amortization expense	—	—	2,737	0.8	(100.0)
Special charges	745	0.2	204	0.1	265.2
Operating income	30,374	9.2	33,617	9.8	(9.6)
Other expense:					
Interest expense, net	6,721	2.1	7,102	2.1	(5.4)
Other (income) expense, net	(686)	(0.2)	521	0.1	(231.7)
Income before income taxes	24,339	7.3	25,994	7.6	(6.4)
Provision for income taxes	8,762	2.6	10,398	3.1	(15.7)
Net income	\$ 15,577	4.7%	\$ 15,596	4.5%	(0.1)%

## [Table of Contents](#)

Net revenues for the year ended December 31, 2002 decreased by approximately \$11.7 million, or 3.4%, to \$331.4 million compared to \$343.1 million for the year ended December 31, 2001. The decrease in net revenues for the year ended December 31, 2002 was attributable to the following (In thousands):

<u>Segment</u>	<u>2002</u>	<u>2001</u>	<u>Total Change</u>	<u>Acquisitions</u>	<u>Operations</u>	<u>Foreign Exchange</u>
Instrumentation & Thermal Fluid Controls	\$ 190,524	\$ 193,297	\$ (2,773)	\$ 10,518	\$ (15,325)	\$ 2,034
Petrochemical	140,924	149,786	(8,862)	–	(11,574)	2,712
<b>Total</b>	<b>\$ 331,448</b>	<b>\$ 343,083</b>	<b>\$ (11,635)</b>	<b>\$ 10,518</b>	<b>\$ (26,899)</b>	<b>\$ 4,746</b>

The Instrumentation and Thermal Fluid Controls Products segment accounted for 57.5% of net revenues for the year ended December 31, 2002 compared to 56.3% for the year ended December 31, 2001. The Petrochemical Products segment accounted for 42.5% of net revenues for the year ended December 31, 2002 compared to 43.7% for the year ended December 31, 2001.

Instrumentation and Thermal Fluid Controls Product revenues decreased \$2.8 million, or 1.4%, for the year ended December 31, 2002. Product revenues from general industrial markets decreased \$17.5 million, primarily due to reduced sales volume caused by weak economic conditions in chemical processing, power generation, commercial aerospace and other general industrial instrumentation markets. Steam and HVAC markets improved later in the year with increased sales of \$2.2 million over the prior year. Incremental revenue of \$10.5 million provided from the June 2001 acquisitions of RTK and SART and the October 2002 acquisitions of Tomco and U.S. Para Plate and a \$2.0 million increase in revenues resulting from changes in exchange rates affecting our European business units also partially offset revenue decreases in other markets. Petrochemical Products revenues decreased by \$8.9 million, or 5.9%. Revenues from our North American operations decreased by \$19.2 million, principally due to reduced oil and gas drilling and production activity and the short cycle maintenance, repair and overhaul MRO business, and to a lesser extent, economic weakness in chemical processing and general industrial markets. Revenues generated in the People's Republic of China decreased by \$1.2 million. These decreases in revenue were partially offset by a \$8.8 million increase in revenues from our Italian subsidiary, resulting from higher volume shipments of product for large international oil and gas projects; and a \$2.7 million increase in revenues resulting from changes in exchange rates which affected our Canadian and Italian operations.

Gross profit decreased \$5.2 million, or 5.0%, to \$98.3 million for the year ended December 31, 2002 compared to \$103.5 million for the year ended December 31, 2001. Gross margin decreased to 29.7% for the year ended December 31, 2002 compared to 30.2% for the year ended December 31, 2001. Gross profit for the Instrumentation and Thermal Fluid Controls Products segment decreased \$4.9 million. The net decrease consisted of a \$9.2 million gross profit reduction from operations, partially offset by the incremental \$3.7 million of gross profit from the June 2001 acquisitions of RTK and SART and the October 2002 acquisitions of Tomco and U.S. Para Plate, and a \$0.6 million increase resulting from changes in foreign exchange rates affecting our European business units. Gross profit and gross margin decreased due to soft end-market conditions and reduced sales volume, a lower proportion of higher margin commercial aerospace and general industrial market products, a higher proportion of lower margin project order shipments, unabsorbed manufacturing costs that could not be fully avoided as orders declined and increased current year insurance costs. Gross profit for the Petrochemical Products segment decreased \$0.3 million for the year ended December 31, 2002 compared to the year ended December 31, 2001. The net gross profit decrease consisted of a reduction of \$0.9 million in North America caused by lower product sales volume for higher margin maintenance and repair orders, competitive price reductions and higher insurance costs, partially offset by an

## [Table of Contents](#)

increase in the volume, pricing and margin for large international oil and gas projects, certain manufacturing and operating cost reductions and favorable foreign exchange rate changes of \$0.6 million.

Selling, general and administrative expenses increased \$0.2 million, or 0.4%, to \$67.2 million for the year ended December 31, 2002 compared with \$66.9 million for the year ended December 31, 2001. Selling, general and administrative expenses for the Instrumentation and Thermal Fluid Controls Products segment increased by approximately \$0.9 million. The net increase was principally the result of: \$2.2 million of additional expenses related to the June 2001 acquisitions of RTK and SART and the October 2002 acquisitions of Tomco and U.S. Para Plate; a \$0.4 million increase due to foreign exchange rate changes; offset by a \$1.7 million reduction realized through lower spending for variable general and administrative and compensation expenses on lower staffing levels, partially offset by higher insurance costs. Selling, general and administrative expenses for the Petrochemical Products segment decreased \$0.7 million due to \$1.0 million of lower variable selling and compensation expenses; partially offset by a \$0.3 million increase due to foreign exchange rate changes. Significant expense reductions realized in our North American operations were partially offset by the higher costs in our Italian operation as a result of increased sales activity. Corporate general and administrative expenses increased less than \$0.1 million, as a result of higher corporate development, insurance costs, and legal and professional fees, partially offset by lower variable compensation and fringe benefit costs.

Goodwill amortization expense was not recorded for the year ended December 31, 2002 compared with \$2.7 million for the year ended December 31, 2001. Goodwill amortization expense for the year ended December 31, 2001 consisted of \$2.3 million for the Instrumentation and Thermal Fluid Controls Products segment and \$0.4 million for the Petrochemical Products segment. On January 1, 2002, we adopted Statement No. 142 that requires goodwill no longer be amortized. See Note 2 to the consolidated financial statements for further information on our adoption of Statement No. 142.

Special charges of \$0.7 million and \$0.2 million were incurred in the Petrochemical Products segment for the years ended December 31, 2002 and 2001, respectively. These charges were associated with the closure, consolidation and reorganization of certain North American manufacturing operations. Special charges incurred during 2002 consisted of \$0.3 million of manufacturing equipment write-offs, \$0.2 million of severance costs for 16 employees and \$0.2 million of exit costs principally related to leased facilities that were closed. Special charges incurred during 2001 consisted of \$0.1 million of severance and \$0.1 million of exit costs. Special charges were expensed in the periods incurred. The accrued liability for severance and exit costs to be paid subsequent to December 31, 2002 is less than \$0.1 million.

The change in operating income for the year ended December 31, 2002 compared to the year ended December 31, 2001 was as follows (In thousands):

<u>Segment</u>	<u>2002</u>	<u>2001</u>	<u>Total Change</u>	<u>Acquisitions</u>	<u>Operations</u>	<u>Foreign Exchange</u>
Instrumentation & Thermal Fluid Controls	\$ 28,614	\$ 32,158	\$ (3,544)	\$ 1,425	\$ (5,132)	\$ 163
Petrochemical	9,480	9,194	286	–	(71)	357
Corporate	(7,720)	(7,735)	15	–	15	–
<b>Total</b>	<b>\$ 30,374</b>	<b>\$ 33,617</b>	<b>\$ (3,243)</b>	<b>\$ 1,425</b>	<b>\$ (5,188)</b>	<b>\$ 520</b>

Operating income decreased \$3.2 million, or 9.6%, to \$30.4 million for the year ended December 31, 2002 compared to \$33.6 million for the year ended December 31, 2001. Operating income for the Instrumentation and Thermal Fluid Controls Products segment declined \$3.5 million, or 11.0%, for the year

## [Table of Contents](#)

ended December 31, 2002 compared to the year ended December 31, 2001. Operating income for this segment was affected by a \$7.4 million decrease primarily from: lower sales volume; reduced sales of higher margin products; unabsorbed manufacturing costs in high volume manufacturing operations and higher insurance costs, partially offset by reductions in variable general and administrative and compensation expenses and lower staffing levels. This operating income decrease was partially offset by the \$2.3 million from the discontinuation of amortizing goodwill, the \$1.4 million contributed by the June 2001 acquisitions of RTK and SART and the October 2002 acquisitions of Tomco and U.S. Para Plate, and \$0.2 million from changes in foreign exchange rates. Operating income for the Petrochemical Products segment increased \$0.3 million, or 3.1%, for the year ended December 31, 2002 compared to the year ended December 31, 2001. The increase in the operating income for this segment consisted of: an increase of \$0.4 million due to the discontinuation of amortizing goodwill; a net increase of \$0.1 million from operating activities; a \$0.3 million increase due to favorable foreign exchange rate changes, partially offset by a \$0.5 million increase in special charges. The net \$0.1 million increase from operating activities primarily was the result of: higher revenues and the resulting gross profits generated from large international oil and gas projects, and lower variable selling expenses; partially offset by a reduction in sales attributable to weaker MRO demand in oil and gas markets; domestic price reductions in the second, third, and fourth quarters; and increased insurance costs.

Net interest expense decreased approximately \$0.4 million to \$6.7 million for the year ended December 31, 2002 compared to \$7.1 million for the year ended December 31, 2001. The decrease is primarily related to the \$15.0 million principal payment of our senior notes, the \$4.6 million reduction of debt assumed from prior years' acquisitions and from lower average interest rates on variable rate debt. Interest income on invested balances remained unchanged despite higher average cash balances during 2002 as a result of lower interest rates in 2002.

Net other (income) expense decreased \$1.2 million from a net \$0.5 million expense for the year ended December 31, 2001 to a net (\$0.7) million income for the year ended December 31, 2002. The decrease is primarily attributable to a \$1.1 million increase in favorable foreign exchange income, a \$0.4 million reduction in minority interest expense resulting from reduced profitability of our Chinese joint venture, partially offset by \$0.1 million higher losses on the disposal of capital equipment, \$0.1 million in fees incurred for the early extinguishments of debt and a \$0.1 million reduction in non-operating municipal grant income.

The effective tax rate decreased to 36.0% for the year ended December 31, 2002 compared to 40.0% for the year ended December 31, 2001. The decrease in the tax rate is primarily the result of the elimination of goodwill amortization expense in accordance with Statement No. 142, which was not deductible for income tax purposes. Additionally, the implementation of various tax strategies at the beginning of 2002 provided a modest rate reduction benefit.

Net income decreased less than \$0.1 million, or 0.1%, to \$15.6 million for the year ended December 31, 2002 compared to \$15.6 million for the year ended December 31, 2001. The net decrease is the result of reduced gross profit on lower current year revenue, additional insurance expenses, and higher special charges in the current year, offset by the elimination of goodwill amortization expense, improved operating results within the Petrochemical Products segment, lower non-operating expenses, and reduced net interest expenses, as discussed above.

### **Liquidity and Capital Resources**

Our liquidity needs arise primarily from capital investment in machinery, equipment and the improvement of facilities, funding working capital requirements to support business growth initiatives, acquisitions, dividend payments, pension funding obligations and debt service costs. We continue to generate substantial cash from

## [Table of Contents](#)

operations and remain in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing our capital structure on a short and long-term basis.

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

	Year Ended December 31,	
	2003	2002
Cash flow provided by (used in):		
Operating activities	\$ 58,242	\$ 24,925
Investing activities	(20,981)	(23,241)
Financing activities	(19,113)	(20,504)
Effect of exchange rates on cash balances	1,672	192
Increase (decrease) in cash and cash equivalents	\$ 19,820	\$ (18,628)

During the year ended December 31, 2003, we generated \$58.2 million in cash flow from operating activities. Net income plus non-cash charges, such as depreciation, amortization, losses on the disposal and write-down of property, plant and equipment and the change in deferred taxes, provided a source of \$29.6 million of operating cash flows. A net decrease in working capital provided \$28.6 million of operating cash, primarily consisting of: a decrease in inventories of \$19.8 million and an increase of \$9.6 million in accounts payable, accrued expenses and other liabilities. The \$21.0 million used for investing activities included: \$10.6 million used for the acquisitions of DQS International and Texas Sampling and for the release of funds from escrow for our prior year purchase of Tomco; \$7.9 million used to purchase investments, \$6.8 million used for the purchase of capital equipment, partially offset by \$4.3 million in proceeds from the sale of investments and the disposal of capital equipment. We used \$19.1 million for financing activities that included: an \$18.5 million net reduction of our long-term debt, \$2.3 million to pay dividends to shareholders; partially offset by \$1.7 million in cash received from the exercise of stock options and the conversion of restricted stock units to common shares. The effects of foreign currency exchange rate changes on cash and cash equivalents increased cash balances by \$1.7 million.

We have \$7.8 million of investments that are designated as available for sale and readily convertible to cash should the need for additional working capital arise.

Our capital expenditure budget for the year ending December 31, 2004 is \$8.2 million. Capital expenditures are primarily for machinery and equipment as part of our ongoing commitment to further improve our manufacturing operations and to manufacture new products.

The ratio of current assets to current liabilities as of December 31, 2003 was 2.9:1 compared to 3.2:1 as of December 31, 2002. Cash and cash equivalents were \$58.2 million as of December 31, 2003 compared to \$38.4 million as of December 31, 2002. Net debt (total debt less cash, cash equivalents and investments) as a percentage of total net capital (net debt plus equity) employed was less than zero as of December 31, 2003 compared to 12.7% as of December 31, 2002.

As of December 31, 2003 and 2002, we had no amounts outstanding under our corporate \$75.0 million unsecured revolving credit facility. On December 4, 2002, we revised this credit line by entering into an amendment to the original credit agreement that extends the term of the credit facility to December 2006. The amendment to the credit agreement also provides us with an option to increase the available line of credit to \$100 million, subject to leverage restrictions and certain other conditions. In accordance with the credit agreement, the rate of interest and facility fees we are charged vary based upon changes in our net debt leverage

## [Table of Contents](#)

ratio. We can borrow at either the Euro dollar rate plus an applicable margin of 0.625% to 1.625%, or at a base rate plus an applicable margin of 0% to 0.25%. The base rate for any day is the higher of the federal funds rate plus 0.50% or the lender's prime rate. We are also required to pay an unused facility fee that can range from 0.15% to 0.35% per annum and a utilization fee of 0.125% per annum if our borrowings exceed 50% of the credit facility limit. As of December 31, 2003, we had \$75.0 million available under the revolving credit facility to support our acquisition program, working capital requirements and general corporate purposes.

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; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. We completed an amendment to our revolving line of credit agreement, effective December 31, 2003, that permits foreign subsidiaries to invest their excess cash in high quality securities backed by well capitalized institutions in their respective countries rather than requiring such excess cash to be brought back to the U.S. for investment. We were in compliance with all covenants related to our existing debt obligations at December 31, 2003 and 2002. We expect to be in compliance with all covenants related to our existing debt obligations through 2004.

In October 2002, we purchased Tomco and U.S. Para Plate for \$17.6 million in cash, net of cash acquired, and assumed \$0.7 million in debt and \$4.0 million of investments at fair market value. We also deposited an additional \$2.3 million into separate escrow accounts for the benefit of the sellers, subject to any such claims by us as are allowed in accordance with the purchase agreements. In October 2003, \$1.0 million was released from escrow and distributed to the sellers and accounted for as additional purchase cost. Any funds remaining in the escrow accounts at the conclusion of the contingency periods will be distributed to the sellers and accounted for as additional purchase cost.

On November 14, 2003, we acquired DQS International B.V. ("DQS"), headquartered in Rotterdam, the Netherlands, for \$6.0 million in cash and the assumption of \$0.8 million of net debt. We also deposited an additional \$0.6 million into a separate escrow account for the benefit of the sellers, subject to any such claims by us as are allowed in accordance with the purchase agreement. Any funds remaining in the escrow account at the conclusion of the contingency period will be distributed to the sellers and accounted for as an additional purchase price. The \$4.1 million excess of the original purchase price over the fair value of the net identifiable assets is recorded as goodwill and is expected to be deductible for tax purposes.

On December 11, 2003, we acquired Texas Sampling, Inc. ("TSI"), located in Victoria, Texas for \$4.4 million in cash. We also deposited an additional \$0.2 million into a separate escrow account for the benefit of the sellers, subject to any such claims by us as are allowed in accordance with the purchase agreement. The \$3.7 million excess of the original purchase price over the fair value of net identifiable assets is recorded as goodwill and is expected to be deductible for tax purposes. Any funds remaining in the escrow account at the conclusion of the contingency period will be distributed to the sellers and accounted for as an additional purchase price.

The combined annual revenues for DQS and TSI were approximately \$9.1 million. We financed both of these acquisitions from available cash balances and we accounted for these transactions as purchase business combinations.

On October 19, 2002 and 2003, we paid the first two \$15.0 million annual payments toward reducing the original \$75.0 million principal balance for our unsecured 8.23% senior notes in accordance with the note agreement governing these securities. The outstanding balance at December 31, 2003 is \$45.0 million. We have three annual principal payments remaining of \$15 million each, payable on October 19, 2004, 2005, and 2006.

## Table of Contents

During 2003, we contributed an additional \$3.0 million into our pension plan trust. This cash contribution was made to increase the plan assets to a level that was equivalent to, or greater than, the accumulated benefit obligations of the plan as of September 30, 2003.

The following table summarizes our significant contractual obligations and commercial commitments at December 31, 2003 that affect our liquidity (In thousands):

	Payments due by Period				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	Thereafter
<b>Contractual Cash Obligations:</b>					
Notes payable	\$ 748	\$ 748	\$ –	\$ –	\$ –
Current portion of long-term debt	16,520	16,520	–	–	–
Total short-term borrowings	17,268	17,268	–	–	–
Long-term debt, less current portion	43,791	–	38,921	–	4,870
Operating leases	17,345	3,889	6,385	5,353	1,718
Total contractual cash obligations	\$ 78,404	\$ 21,157	\$ 45,306	\$ 5,353	\$ 6,588
<b>Other Commercial Commitments:</b>					
U.S. standby letters of credit	\$ 4,320	\$ 4,096	\$ 224	\$ –	\$ –
International standby letters of credit	6,070	4,126	1,752	192	–
Commercial contract commitments	2,001	915	1,005	81	–
Total commercial commitments	\$ 12,391	\$ 9,137	\$ 2,981	\$ 273	\$ –

We have generated net income and positive cash flow from operating activities since the company was spun-off from our former parent in October 1999. Looking forward to the next 24 months, we believe that we will continue to have the necessary funds to operate the company. If our current sales and profitability trends continue, we expect to be profitable and expect that depreciation expense will be greater than our capital expenditures and that working capital will continue to decrease, particularly inventory which has been a focus during the past two years. Regarding inventory, our inventory turns increased in 2003 to 2.8 based on annualizing our fourth quarter 2003 results. We are striving to achieve a minimum of 4.0 turns, which could provide an approximate additional \$30.0 million of cash during the next two to three years. Therefore, we expect to generate cash from operating activities that should be sufficient to service operations, capital needs, scheduled debt payments, and our current dividend practice paying \$0.15 per share annually. In addition, we have available cash balances and investments that are readily convertible to cash and available for use. Apart from our normal operating needs, scheduled debt and expected dividend payments, we continue to search for strategic acquisitions in the flow control market. We expect that the financing of smaller sized acquisitions would come from existing cash and investments, and if need be, borrowings from our unused \$75.0 million revolving line of credit. A larger acquisition would require additional borrowings and, or, the issuance of our common stock.

### **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.

## [Table of Contents](#)

### **New Accounting Standards**

In July 2002, FASB Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," ("Statement No. 146") was issued. Statement No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement is effective for fiscal years beginning after December 31, 2002. The adoption of Statement No. 146 did not have a material impact on our reported consolidated results of operations or financial position.

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Nos. 5, 57, and 107 and Rescission of FASB Interpretation No. 34," ("FIN No. 45") was issued in November, 2002. FIN No. 45 elaborates on the disclosures to be made by a guarantor and clarifies requirements relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN No. 45 requires that upon issuance of a guarantee, companies recognize a liability for the fair value of the obligation it assumes under that guarantee. We adopted the annual disclosure provisions as of December 31, 2002. We adopted the provisions for initial recognition and measurement during the first quarter of 2003. We do offer warranties, however, the returns and repair costs incurred under warranty have been immaterial. The adoption of FIN No. 45 did not have a material effect on our consolidated financial statements.

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," ("FIN No. 46") was issued. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective for all new variable interest entities created or acquired after January 31, 2003. During December 2003, the FASB issued a revision to FIN No. 46 ("FIN No. 46R"). Under the revised provisions, public entities are required to apply the guidance if the entity has interests in variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. We have no variable interest entities at this time, and as such, the adoption of FIN Nos. 46 and 46R did not have a material effect on our consolidated financial statements.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities," (Statement No. 149). Statement No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". Statement No. 149 is effective for contracts entered into or modified after September 30, 2003, and for hedging relationships designated after September 30, 2003 and is to be applied prospectively. The adoption of Statement No. 149 did not have a material impact on our consolidated financial statements.

In May 2003, FASB Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("Statement No. 150") was issued. Statement No. 150 establishes standards for how an issuer classifies and measures in its balance sheet certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify instruments within its scope as a liability (or an asset in some circumstances) in the statement of financial position. Statement No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. We are not party to any such financial instruments as defined under Statement No. 150, and therefore, the adoption of this statement did not have a material effect on our consolidated financial statements.

## [Table of Contents](#)

In November 2003, the FASB issued FASB Staff Position No. 150-3 (“FSS 150-3”) which deferred the effective dates for applying certain provisions of SFAS 150 related to mandatorily redeemable financial instruments of certain non-public entities and certain mandatorily redeemable non-controlling interests for public and non-public companies. For public entities, Statement No. 150 is effective for mandatorily redeemable financial instruments entered into or modified after May 31, 2003 and is effective for all other financial instruments as of the first interim period beginning after June 15, 2003. For mandatorily redeemable non-controlling interests that would not have to be classified as liabilities by a subsidiary, but would have to be classified as liabilities by the parent, the classification and measurement provisions of Statement No. 150 are deferred indefinitely. The measurement provisions of Statement No. 150 are also deferred indefinitely for other mandatorily redeemable non-controlling interests that were issued before November 4, 2003. For those instruments, the measurement guidance for redeemable shares and non-controlling interests in other literature shall apply during the deferral period. We are not party to any such financial instruments as defined under FSS No. 150, and therefore, the adoption of this statement did not have a material effect on our consolidated financial statements or disclosures.

### **CERTAIN RISK FACTORS THAT MAY AFFECT FUTURE RESULTS**

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

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

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

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

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

Terrorist attacks have negatively impacted general economic, market and political conditions. In particular, terrorist attacks, compounded with the slowing national economy, have resulted in reduced revenues in the aerospace and general industrial markets in years 2002 and 2003. Although economic conditions appear to be

## [Table of Contents](#)

improving, additional terrorist acts or acts of war (wherever located around the world) could cause damage or disruption to our business, our facilities, our joint-venture partners or our employees which could significantly impact our business, financial condition or results of operations. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility, including the current tensions in Iraq and the Middle East, have created many economic and political uncertainties, which could adversely affect our business and results of operations in ways that cannot presently be predicted. In addition, with manufacturing facilities located worldwide, including facilities located in the United States, Canada, Western Europe and the People's Republic of China, we may be impacted by terrorist actions not only against the United States but in other parts of the world as well. We are predominately uninsured for losses and interruptions caused by terrorist acts and acts of war.

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

We operate a number of manufacturing facilities for the production of our products. The equipment and management systems necessary for such operations may break down, perform poorly, or fail, resulting in fluctuations in manufacturing efficiencies. Such fluctuations may affect our ability to deliver products to our customers on a timely basis, which could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

## [Table of Contents](#)

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

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

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

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

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

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

### **Prices of our raw materials may increase which may adversely affect our business.**

We obtain our raw materials for the manufacture of our products from third-party suppliers. We do not have contracts with many of these suppliers that require them to sell us the materials we need to manufacture our products. Historically, stainless steel, iron and carbon steel, in particular, have each increased in price as a result of increases in demand. While in the past we have not experienced difficulties in obtaining the raw materials we require (including stainless steel, cast iron and carbon steel), we cannot be certain that our suppliers will continue to provide us with the raw materials we need in the quantities requested or at a price we are willing to pay. In the past we have been able to partially offset increases in the cost of raw materials by increased sales prices, active materials management, product engineering programs and the diversity of materials used in our production processes. However, we cannot be certain that we will be able to accomplish this in the future. Since we do not control the actual production of these raw materials, we may also be subject to delays caused by interruption in production of materials for reasons we cannot control. These include job actions or strikes by

## [Table of Contents](#)

employees of suppliers, transportation interruptions and natural disasters or other catastrophic events. Our inability to obtain adequate supplies of raw materials for our products at favorable prices, or at all, could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

We are subject to a variety of environmental laws relating to the storage, discharge, handling, emission, generation, use and disposal of chemicals, solid and hazardous waste and other toxic and hazardous materials used to manufacture, or resulting from the process of manufacturing, our products. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing or future laws will be administered or interpreted. Future regulations could be applied to materials, products or activities that have not been subject to regulation previously. The costs of complying with new or more stringent regulations, or with more vigorous enforcement of these or existing regulations could be significant.

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

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

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

## [Table of Contents](#)

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

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

### **The costs associated with the defense of asbestos-related claims and the payment of any judgments or settlements with respect to such claims are subject to a number of uncertainties. As such, we cannot guarantee that such claims ultimately will not have an adverse effect on our financial statements, results of operations or cash flows.**

Like many other manufacturers of fluid control products, we have been named as defendants in a growing number of product liability actions brought on behalf of individuals who seek compensation for their alleged exposure to airborne asbestos fibers. In general, any components containing asbestos formerly used in our products were entirely internal to the product and, we believe, would not give rise to ambient asbestos dust during normal operation or during normal inspection and maintenance. As such, we believe that we have minimal, if any, liability with respect to the vast majority of these cases and that these cases, in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows. However, due to the nature and number of variables associated with asbestos related claims, such as the rate at which new claims may be filed; the availability of insurance policies to continue to recover certain of our costs relating to the defense and payment of these claims; the impact of bankruptcies of other companies currently or historically defending asbestos claims; the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case; the impact of potential changes in legislative or judicial standards; the type and severity of the disease alleged to be suffered by each claimant; and increases in the expense of medical treatment, we are unable to reliably estimate the ultimate costs of these claims.

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

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

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

Our amended and restated certificate of incorporation and amended and restated by-laws, the Delaware General Corporation Law and our shareholder rights plan contain provisions that could delay or prevent a change in control in a transaction that is not approved by our board of directors or that is on a leveraged basis or otherwise. These

## [Table of Contents](#)

include provisions creating a staggered board, limiting the shareholders' powers to remove directors, and prohibiting shareholders from calling a special meeting or taking action by written consent in lieu of a shareholders' meeting. In addition, our board of directors has the authority, without further action by the shareholders, to set the terms of and to issue preferred stock. Issuing preferred stock could adversely affect the voting power of the owners of our common stock, including the loss of voting control to others. Additionally, we have adopted a shareholder rights plan providing for the issuance of rights that will cause substantial dilution to a person or group of persons that acquires 15% or more of our shares of common stock, unless the rights are redeemed.

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

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

Our senior note purchase agreement, dated October 19, 1999, and our revolving credit facility agreement, dated October 19, 1999, and most recently amended on March 3, 2004 effective December 31, 2003; govern our indebtedness to our lenders. The debt agreements include provisions which place limitations on certain activities including our ability to: issue shares of our common stock; incur additional indebtedness; create any liens or encumbrances on our assets or make any guarantees; make certain investments; pay cash dividends above certain limits; or dispose of or sell assets or enter into a merger or a similar transaction.

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

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

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

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

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

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

## [Table of Contents](#)

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market Risk

The oil and 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 and gas markets, the general industrial, chemical processing, aerospace, military and maritime markets have historically experienced cyclical fluctuations in demand that also could have a material adverse effect on our business, financial condition or results of operations.

#### Interest Rate Sensitivity Risk

As of December 31, 2003, our primary interest rate risk is related to borrowings under our revolving credit facility and our industrial revenue bonds. The interest rates for our revolving credit facility and industrial revenue bonds fluctuate with changes in short-term borrowing rates. There were no borrowings under our revolving credit facility outstanding as of December 31, 2003. Based upon expected levels of borrowings under our credit facility in 2003 and our current balances for industrial revenue bonds, an increase in variable interest rates of 100 basis points would not have a material effect on our results of operations or cash flows.

#### Foreign Currency Exchange Risk

We use forward contracts to manage the currency risk related to business transactions denominated in foreign currencies. Related gains and losses are recognized when the contracts expire, which are generally in the same period as the underlying foreign currency denominated transactions. To the extent these transactions are completed, the contracts do not subject us to significant risk from exchange rate movements because they offset gains and losses on the related foreign currency denominated transactions. As of December 31, 2003, we had no forward contracts to buy foreign currencies. There were no unrealized gains attributable to foreign currency forward contracts at December 31, 2003 and there were \$0.1 million of gains at December 31, 2002. The counterparties to these contracts are major financial institutions. Our risk of loss in the event of non-performance by the counterparties is not significant.

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

#### Commodity Price Risk

The primary raw materials used in our production process are stainless steel, carbon steel, aluminum, bronze, and brass. We purchase these materials from numerous suppliers nationally and internationally, and have not historically experienced significant difficulties in obtaining these commodities in quantities sufficient for our operations. However, these commodities are subject to price fluctuations that may adversely affect our results of operations. We manage this risk by offsetting increases in commodities with increased sales prices, active materials management, product engineering programs and the diversity of materials used in our production processes.

## [Table of Contents](#)

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### CIRCOR INTERNATIONAL, INC Index to Consolidated Financial Statements

	<b>Page</b>
<a href="#">Independent Auditors' Report</a>	46
<a href="#">Consolidated Balance Sheets as of December 31, 2003 and 2002</a>	47
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001</a>	48
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001</a>	49
<a href="#">Consolidated Statements of Shareholders' Equity for the years ended December 31, 2003, 2002 and 2001</a>	50
<a href="#">Notes to Consolidated Financial Statements</a>	51

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

## PART III

### ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Securities Exchange Act ("Exchange Act") of 1934, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that as of the evaluation date and the filing date of this report our disclosure controls and procedures are designed and are effective to give reasonable assurance that information we disclose in reports filed with the Commission is properly recorded, processed, summarized and reported in conformity with the rules and regulations of the Commission. However, in the course of that evaluation, the Chief Executive Officer and Chief Financial Officer did identify a deficiency in the design and effectiveness of internal control for reconciling certain foreign subsidiaries' statutory accounts to their amounts included in our consolidated financial statements. In response to their discovery of this issue, senior management has taken steps to strengthen our control processes and procedures to correct this weakness and provide reasonable assurance that the noted weakness in internal control over financial reporting did not result in a material misstatement of our consolidated financial statements.

Both as of and subsequent to December 31, 2003, we instituted additional procedures to ensure that reconciliations of statutory accounts to the financial statements are properly maintained and independently reviewed to ensure their correctness. Additional steps will be taken in the current quarter to provide appropriate training and to require more detailed documentation for adjustments to the statutory accounts.

Based on the actions taken and the institution of these additional processes and procedures, our chief executive officer and chief financial officer have concluded that our improved controls and procedures will be effective in addressing the area of weakness.

## [Table of Contents](#)

We will continue to review and document our disclosure controls and procedures and our internal controls over financial reporting. We will consider such changes, as we may deem advisable, based on future evaluations of the effectiveness of such controls and procedures.

Changes in internal controls.

Except for the internal control improvements described above, there have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation. From time-to-time, we may make changes in our system of internal controls aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information appearing under the sections “Information Regarding Directors” and “Information Regarding Executive Officers” in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on April 22, 2004 is incorporated herein by reference.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information appearing under the section “Executive Compensation” in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 22, 2004 is incorporated herein by reference.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information appearing under the section “Security Ownership of CIRCOR Common Stock by Certain Beneficial Owners, Directors and Executive Officers of the Company” in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 22, 2004 is incorporated herein by reference.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTION**

The information appearing under the section “Certain Relationships and Related Transactions” in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 22, 2004 is incorporated herein by reference.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

This information appearing under the section “Principal Accounting Fees and Services” in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 22, 2004 is incorporated herein by reference.

**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K****(a)(1) Financial Statements**

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

**(a)(2) Financial Statement Schedules**[Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2003, 2002 and 2001](#)**Page**

78

All schedules for which provision is made in the applicable accounting regulations of the Security and Exchange Commission are not required under the related instructions or are not material, and therefore have been omitted.

**(a)(3) Exhibits**

<b>Exhibit No.</b>	<b>Description and Location</b>
2	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession:
2.1	Distribution Agreement between Watts Industries, Inc. and CIRCOR International, Inc. dated as of October 1, 1999, is incorporated herein by reference to Exhibit 2.1 to Amendment No. 2 to CIRCOR International, Inc.'s Registration Statement on Form 10, File No. 000-26961, filed with the Securities and Exchange Commission on October 6, 1999 ("Amendment No. 2 to the Form 10").
3	Articles of Incorporation and By-Laws:
3.1	The Amended and Restated Certificate of Incorporation of CIRCOR International, Inc. is incorporated herein by reference to Exhibit 3.1 to CIRCOR International, Inc.'s Registration Statement on Form 10, File No. 000-26961, filed with the Securities and Exchange Commission on August 6, 1999 ("Form 10").
3.2	The Amended and Restated By-Laws of CIRCOR International, Inc. are incorporated herein by reference to Exhibit 3.2 to the Form 10.
3.3	Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of CIRCOR International, Inc. classifying and designating the Series A Junior Participating Cumulative Preferred Stock is incorporated herein by reference to Exhibit 3.1 to CIRCOR International, Inc.'s Registration Statement on Form 8-A, File No. 001-14962, filed with the Securities and Exchange Commission on October 21, 1999 ("Form 8-A").
4	Instruments Defining the Rights of Security Holders, Including Debentures:
4.1	Shareholder Rights Agreement, dated as of September 16, 1999, between CIRCOR International, Inc. and BankBoston, N.A., as Rights Agent is incorporated herein by reference to Exhibit 4.1 to the Form 8-A.
4.2	Agreement of Substitution and Amendment of Shareholder Rights Agent Agreement dated as of November 1, 2002 between CIRCOR International, Inc. and American Stock Transfer and Trust Company is incorporated herein by reference.

## Table of Contents

<b>Exhibit No.</b>	<b>Description and Location</b>
9	Voting Trust Agreements:
9.1	The Amended and Restated George B. Horne Voting Trust Agreement-1997 dated as of September 14, 1999 is incorporated herein by reference to Exhibit 9.1 to Amendment No. 1 to the Company's Registration Statement on Form 10, File No. 000-26961, filed with the Securities and Exchange Commission on September 22, 1999 ("Amendment No. 1 to the Form 10").
10	Material Contracts:
10.1	CIRCOR International, Inc. 1999 Stock Option and Incentive Plan is incorporated herein by reference to Exhibit 10.1 to Amendment No. 1 to the Form 10.
10.2	Form of Incentive Stock Option Agreement under the 1999 Stock Option and Incentive Plan is incorporated herein by reference to Exhibit 10.2 to Amendment No. 1 to the Form 10.
10.3	Form of Non-Qualified Stock Option Agreement for Employees under the 1999 Stock Option and Incentive Plan (Five Year Graduated Vesting Schedule) is incorporated herein by reference to Exhibit 10.3 to Amendment No. 1 to the Form 10.
10.4	Form of Non-Qualified Stock Option Agreement for Employees under the 1999 Stock Option and Incentive Plan (Performance Accelerated Vesting Schedule) is incorporated herein by reference to Exhibit 10.4 to Amendment No. 1 to the Form 10.
10.5	Form of Non-Qualified Stock Option Agreement for Independent Directors under the 1999 Stock Option and Incentive Plan is incorporated herein by reference to Exhibit 10.5 to Amendment No. 1 to the Form 10.
10.6	CIRCOR International, Inc. Management Stock Purchase Plan is incorporated herein by reference to Exhibit 10.6 to Amendment No. 1 to the Form 10.
10.7	Form of CIRCOR International, Inc. Supplemental Employee Retirement Plan is incorporated herein by reference to Exhibit 10.7 to Amendment No. 1 to the Form 10.
10.8	Trust Indenture from Village of Walden Industrial Development Agency to The First National Bank of Boston, as Trustee, dated June 1, 1994 is incorporated herein by reference.
10.9	Loan Agreement between Hillsborough County Industrial Development Authority and Leslie Controls, Inc. dated July 1, 1994 is incorporated herein by reference.
10.10	Trust Indenture from Hillsborough County Industrial Development Authority to The First National Bank of Boston, as Trustee, dated July 1, 1994 is incorporated herein by reference.
10.11	Form of Indemnification Agreement between CIRCOR International, Inc. and each of its Directors dated November 6, 2002 is incorporated herein by reference.
10.12	Executive Employment Agreement, as amended and restated, between CIRCOR, Inc. and David A. Bloss, Sr., dated as of October 23, 2002 is incorporated herein by reference.
10.13	Credit Agreement, dated as of October 18, 1999, by and among CIRCOR International, Inc., a Delaware corporation, as Borrower, each of the Subsidiary Guarantors named therein, the Lenders from time to time a party thereto, ING (U.S.) Capital LLC, as Agent for such Lenders, BankBoston, N.A., as Syndication Agent, First Union National Bank, as Documentation Agent and ING Barings LLC, as Arranger for the Lenders is incorporated herein by reference to Exhibit 10.19 to CIRCOR International, Inc.'s Current Report on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on October 21, 1999.
10.14	Note Purchase Agreement, dated as of October 19, 1999, among CIRCOR International, Inc., a Delaware corporation, the Subsidiary Guarantors and each of the Purchasers listed on Schedule A attached thereto is incorporated herein by reference to Exhibit 10.20 to CIRCOR International, Inc.'s Current Report on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on October 21, 1999.

## Table of Contents

<u>Exhibit No.</u>	<u>Description and Location</u>
10.15	Sharing agreements regarding the rights of debt holders relative to one another in the event of insolvency is incorporated herein by reference to Exhibit 10.21 on Form 10-Q/A filed with the Securities and Exchange Commission on August 14, 2000.
10.16	Executive Change of Control Agreement between CIRCOR, Inc. and Alan R. Carlsen dated August 8, 2000 is incorporated herein by reference to Exhibit 10.23 on Form 10-Q, File No. 001-14962, filed with the Securities and Exchange Commission on November 14, 2000.
10.17	Executive Change of Control Agreement between CIRCOR, Inc. and Kenneth W. Smith dated August 8, 2000 is incorporated herein by reference to Exhibit 10.24 on Form 10-Q, File No. 001-14962, filed with the Securities and Exchange Commission on November 14, 2000.
10.18	Executive Change of Control Agreement between CIRCOR, Inc. and Stephen J. Carriere dated August 8, 2000 is incorporated herein by reference to Exhibit 10.25 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 7, 2001.
10.19	Executive Change of Control Agreement between CIRCOR, Inc. and Alan J. Glass dated August 8, 2000 is incorporated herein by reference to Exhibit 10.26 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 7, 2001.
10.20	Executive Change of Control Agreement between CIRCOR, Inc. and Paul M. Coppinger dated August 1, 2001 is incorporated herein by reference to Exhibit 10.28 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 7, 2001.
10.21	First Amendment to Executive Change of Control Agreement between Alan R. Carlsen and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.27 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.22	First Amendment to Executive Change of Control Agreement between Kenneth W. Smith and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.28 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.23	First Amendment to Executive Change of Control Agreement between Stephen J. Carriere and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.29 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.24	First Amendment to Executive Change of Control Agreement between Alan J. Glass and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.30 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.25	First Amendment to Executive Change of Control Agreement between Paul M. Coppinger and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.31 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.26	Executive Change of Control Agreement between Carl J. Nasca and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.33 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.27	Executive Change of Control Agreement between Barry L. Taylor, Sr. and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.34 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.

## Table of Contents

<u>Exhibit No.</u>	<u>Description and Location</u>
10.28	Amendment No. 1 to the Credit Agreement dated as of December 22, 2000, among CIRCOR International, Inc.; each of the Subsidiary Guarantors referred to therein; each of the lenders that is a signatory hereto; and ING Capital LLC, a Delaware limited liability company, as agent for the lenders that are a signatory thereto is incorporated herein by reference.
10.29	Amendment No. 2 to the Credit Agreement, dated as of December 4, 2002, among CIRCOR International, Inc.; each of the Subsidiary Guarantors referred to therein; each of the lenders that is a signatory hereto; and ING Capital LLC, a Delaware limited liability company, as agent for the lenders that are a signatory thereto is incorporated herein by reference to Exhibit 10.2 on Form 8-K, file No. 001-14962, filed with the Securities and Exchange Commission on December 12, 2002.
*10.30	Amendment No. 3 to the Credit Agreement, effective December 31, 2003, among CIRCOR International, Inc.; each of the Subsidiary Guarantors referred to therein; each of the lenders that is a signatory hereto; and ING Capital LLC, a Delaware limited liability company, as agent for the lenders that are a signatory thereto.
*10.31	Letter of Credit, Reimbursement and Guaranty Agreement dated as of March 1, 2004 among Leslie Controls, Inc., as Borrower, CIRCOR International, Inc., as Guarantor, and Sun Trust National Bank as Letter of Credit Provider.
*10.32	Letter of Credit, Reimbursement and Guaranty Agreement dated as of March 1, 2004 among Spence Engineering Company, Inc., as Borrower, CIRCOR International, Inc., as Guarantor, and Sun Trust National Bank as Letter of Credit Provider.
*21	Schedule of Subsidiaries of CIRCOR International, Inc.
*23	Consent of KPMG LLP.
*31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed with this report

**(b) Reports on Form 8-K.**

Report furnished November 12, 2003 on Form 8-K pursuant to Item 12, "Results of Operations and Financial Condition" regarding a press release issued on November 12, 2003 relative to the Registrant's financial performance and results for the third quarter of 2003.

**(c) See Item 15(a)(3) above.**

**(d) See Item 15(a)(2) above.**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CIRCOR INTERNATIONAL, INC.

By: /s/ DAVID A. BLOSS, SR.

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David A. Bloss, Sr.  
Chairman, President and  
Chief Executive Officer

Date: March 12, 2004

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DAVID A. BLOSS, SR.</u> David A. Bloss, Sr.	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	March 12, 2004
<u>/s/ KENNETH W. SMITH</u> Kenneth W. Smith	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 12, 2004
<u>/s/ STEPHEN J. CARRIERE</u> Stephen J. Carriere	Vice President, Corporate Controller and Assistant Treasurer (Principal Accounting Officer)	March 12, 2004
<u>/s/ JEROME D. BRADY</u> Jerome D. Brady	Director	March 12, 2004
<u>/s/ THOMAS E. CALLAHAN</u> Thomas E. Callahan	Director	March 12, 2004
<u>/s/ DEWAIN K. CROSS</u> Dewain K. Cross	Director	March 12, 2004
<u>/s/ DAVID F. DIETZ</u> David F. Dietz	Director	March 12, 2004
<u>/s/ DOUGLAS M. HAYES</u> Douglas M. Hayes	Director	March 12, 2004
<u>/s/ THOMAS E. NAUGLE</u> Thomas E. Naugle	Director	March 12, 2004

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of CIRCOR International, Inc. as of December 31, 2003 and 2002 and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three year period ended December 31, 2003. In connection with our audits of the consolidated financial statements, we also audited the accompanying financial statement schedule of valuation and qualifying accounts. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CIRCOR International, Inc. as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets.

**/S/ KPMG LLP**

Boston, Massachusetts  
February 29, 2004

**CIRCOR INTERNATIONAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(In thousands, except share data)*

	December 31,	
	2003	2002
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents.	\$ 58,202	\$ 38,382
Investments	7,840	4,064
Trade accounts receivable, less allowance for doubtful accounts of \$2,119 and \$2,041, respectively.	64,830	56,130
Inventories	97,278	110,287
Prepaid expenses and other current assets	4,587	4,262
Deferred income taxes	6,303	5,884
Assets held for sale	3,884	—
	<hr/>	<hr/>
Total Current Assets	242,924	219,009
PROPERTY, PLANT AND EQUIPMENT, NET	61,737	64,365
<b>OTHER ASSETS:</b>		
Goodwill	111,448	100,419
Intangibles, net	1,587	1,843
Other assets	6,167	5,098
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 423,863</b>	<b>\$ 390,734</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 37,635	\$ 26,769
Accrued expenses and other current liabilities	19,955	14,715
Accrued compensation and benefits	7,787	5,252
Income taxes payable	1,491	2,801
Notes payable and current portion of long-term debt	17,268	18,596
	<hr/>	<hr/>
Total Current Liabilities	84,136	68,133
LONG-TERM DEBT, NET OF CURRENT PORTION	43,791	59,394
DEFERRED INCOME TAXES	6,303	3,934
OTHER NON-CURRENT LIABILITIES	9,820	10,605
MINORITY INTEREST	4,653	5,009
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value; 29,000,000 shares authorized; 15,302,127 and 15,107,850 issued and outstanding at December 31, 2003 and 2002, respectively	153	151
Additional paid-in capital	206,160	203,952
Retained earnings	54,793	39,200
Accumulated other comprehensive income	14,054	356
	<hr/>	<hr/>
Total Shareholders' Equity	275,160	243,659
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 423,863</b>	<b>\$ 390,734</b>

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

**CIRCOR INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(In thousands, except per share data)*

	Year Ended December 31,		
	2003	2002	2001
Net revenues	\$ 359,453	\$ 331,448	\$ 343,083
Cost of revenues	253,941	233,163	239,606
<b>GROSS PROFIT</b>	<b>105,512</b>	<b>98,285</b>	<b>103,477</b>
Selling, general and administrative expenses	74,162	67,166	66,919
Goodwill amortization expense	–	–	2,737
Special charges	1,363	745	204
<b>OPERATING INCOME</b>	<b>29,987</b>	<b>30,374</b>	<b>33,617</b>
Other (income) expense:			
Interest income	(775)	(966)	(922)
Interest expense	5,926	7,687	8,024
Other, net	(837)	(686)	521
<b>TOTAL OTHER EXPENSE</b>	<b>4,314</b>	<b>6,035</b>	<b>7,623</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>25,673</b>	<b>24,339</b>	<b>25,994</b>
Provision for income taxes	7,800	8,762	10,398
<b>NET INCOME</b>	<b>\$ 17,873</b>	<b>\$ 15,577</b>	<b>\$ 15,596</b>
Earnings per common share:			
Basic	\$ 1.18	\$ 1.04	\$ 1.08
Diluted	\$ 1.14	\$ 1.00	\$ 1.04
Weighted average common shares outstanding:			
Basic	15,207	15,028	14,477
Diluted	15,675	15,610	15,023
Dividends paid per common share	\$ 0.15	\$ 0.15	\$ 0.15

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

**CIRCOR INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(In thousands)*

	Year Ended December 31,		
	2003	2002	2001
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 17,873	\$ 15,577	\$ 15,596
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	9,564	10,343	9,977
Amortization	298	307	3,069
Compensation expense of stock-based plans	229	258	-
Deferred income taxes.	1,372	3,064	289
(Gain) loss on disposal of property, plant and equipment.	(21)	139	(22)
Loss on write-down of property, plant and equipment	381	325	-
Gain on the sale of investments	(64)	-	-
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Trade accounts receivable	(2,586)	6,740	1,291
Inventories	19,754	(4,251)	12,927
Prepaid expenses and other assets	1,788	(2,425)	3,532
Accounts payable, accrued expenses and other liabilities	9,654	(5,152)	(1,812)
Net cash provided by operating activities.	<u>58,242</u>	<u>24,925</u>	<u>44,847</u>
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	(6,823)	(4,418)	(4,950)
Proceeds from the disposal of property, plant and equipment	192	119	66
Proceeds from the sale of investments	4,155	(56)	-
Purchase of investments	(7,857)	-	-
Business acquisitions, net of cash acquired	(9,619)	(19,964)	(9,617)
Purchase price adjustments on previous acquisitions	(1,029)	1,088	-
Other	-	(10)	-
Net cash used in investing activities.	<u>(20,981)</u>	<u>(23,241)</u>	<u>(14,501)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from long-term borrowings	1,593	3,934	17,952
Payments of long-term debt	(20,097)	(24,564)	(16,241)
Proceeds from the issuance of common stock, net of issuance costs	-	-	18,698
Dividends paid	(2,280)	(2,255)	(2,169)
Proceeds from the exercise of stock options	1,267	2,249	369
Conversion of restricted stock units	404	132	9
Net cash provided by (used in) financing activities.	<u>(19,113)</u>	<u>(20,504)</u>	<u>18,618</u>
Effect of exchange rate changes on cash and cash equivalents	1,672	192	(146)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.</b>	<u>19,820</u>	<u>(18,628)</u>	<u>48,818</u>
Cash and cash equivalents at beginning of year	<u>38,382</u>	<u>57,010</u>	<u>8,192</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 58,202</u>	<u>\$ 38,382</u>	<u>\$ 57,010</u>
<b>Supplemental Cash Flow Information:</b>			
Cash paid during the year for:			
Income taxes	\$ 7,683	\$ 4,387	\$ 7,460
Interest	\$ 5,747	\$ 7,240	\$ 7,689

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

**CIRCOR INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
*(In thousands)*

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
BALANCE AT DECEMBER 31, 2000	13,263	\$ 133	\$ 181,184	\$ 12,451	\$ (2,587)	\$ 191,181
Net income.				15,596		15,596
Cumulative translation adjustment					(1,559)	(1,559)
Comprehensive income						14,037
Issuance of common stock	1,553	16	18,682			18,698
Common stock dividends declared				(2,169)		(2,169)
Stock options exercised	45	–	527			527
Conversion of restricted stock units	1	–	9			9
Net change in restricted stock units			157			157
BALANCE AT DECEMBER 31, 2001	14,862	149	200,559	25,878	(4,146)	222,440
Net income.				15,577		15,577
Cumulative translation adjustment.					5,481	5,481
Additional minimum pension liability (net of tax benefit of \$608)					(996)	(996)
Unrealized net gain-investments (net of tax of \$10)					17	17
Comprehensive income.						20,079
Common stock dividends declared.				(2,255)		(2,255)
Stock options exercised	234	2	3,064			3,066
Conversion of restricted stock units	12	–	132			132
Net change in restricted stock units			197			197
BALANCE AT DECEMBER 31, 2002	15,108	151	203,952	39,200	356	243,659
Net income.				17,873		17,873
Cumulative translation adjustment.					12,719	12,719
Reversal of minimum pension liability (net of tax expense of \$608)					996	996
Reversal of unrealized net gain-investments (net of tax benefit of \$10)					(17)	(17)
Comprehensive income						31,571
Common stock dividends declared				(2,280)		(2,280)
Stock options exercised	132	1	1,598			1,599
Conversion of restricted stock units	62	1	403			404
Net change in restricted stock units			207			207
BALANCE AT DECEMBER 31, 2003	15,302	\$ 153	\$ 206,160	\$ 54,793	\$ 14,054	\$ 275,160

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

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Description of Business**

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

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

The Petrochemical Products Group designs, manufactures and sells flanged-end and threaded-end floating and trunnion ball valves, needle valves, check valves, butterfly valves and large forged steel ball valves and gate valves for use in oil, gas and chemical processing and industrial applications. The Petrochemical Products Group includes the following subsidiaries and major divisions: KF Contromatics Specialty Products; KF Industries, Inc.; Pibiviesse S.p.A.; Suzhou KF Valve Co., Ltd.; and KF Telford Engineered Products.

On October 18, 1999 (the “spin-off date”), we became a publicly owned company as a result of a tax-free distribution of our common stock (the “distribution” or “spin-off”) to the shareholders of our former parent, Watts Water Technologies, Inc., formerly Watts Industries, Inc. (“Watts”).

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

*Principles of Consolidation and Basis of Presentation*

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

*Use of Estimates*

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Some of the more significant estimates relate to depreciation, amortization and impairment of long-lived assets, pension obligations, deferred income taxes, inventory valuations, sales returns, special charges, environmental liability, product liability and allowance for

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

doubtful accounts. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from those estimates.

*Revenue Recognition and Allowance for Sales Returns*

Revenue is recognized when products are shipped and title has passed to the customer provided that no significant post-delivery obligations remain and collection of the resulting receivable is reasonably assured. Allowances for sales returns are recorded as a reduction of revenues based upon historical experience, return policies and contractual product return rights granted to customers. Adjustments to the allowance account are made as new information becomes available. Shipping and handling costs invoiced to customers are recorded as components of revenues and the associated costs are recorded as cost of sales.

*Allowance for Doubtful Accounts*

We estimate the collectibility of our accounts receivable and the amount of bad debts that may be incurred in the future. We analyze specific customer accounts, historical experience, customer concentrations and relationships, credit ratings, and current economic trends when evaluating the adequacy of our allowance for doubtful accounts.

*Cash Equivalents*

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

*Investments*

Investments consist of various forms of mutual funds, equity securities and guaranteed investment contracts, all of which are currently designated as available for sale. As such, the carrying values of our investments are marked to market and unrealized gains and losses at the balance sheet date are recognized net of tax in other comprehensive income.

*Inventories*

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

*Property, Plant and Equipment*

Property, plant and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 13 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Repairs and maintenance costs are expensed as incurred.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*Assets Held for Sale*

The building and land for the properties noted below were classified as assets held for sale at December 31, 2003 (In thousands):

Tomco Products, in Painesville, Ohio	\$ 1,695
SSI Equipment, in Burlington, Ontario Canada	999
KF Industries, in Houston, Texas	1,190
	<hr/>
	\$ 3,884

The building and land in Painesville, Ohio were no longer used by Tomco following its consolidation into our Hoke facility in Spartanburg, South Carolina. The building and land in Burlington, Ontario, Canada were used by our SSI Equipment subsidiary whose operations were being consolidated into our Spence Engineering facility in Walden, N.Y. The building and land in Houston, Texas were no longer used for ongoing operations when the distribution center was moved to an Oklahoma City, Oklahoma site.

These properties are recorded at the lower of fair value, less the associated selling costs, or net book value. The former Tomco property was sold during February 2004 for \$1.9 million for a net gain of \$0.2 million. The remaining two properties are presently being marketed for sale and we fully expect these sale transactions to be completed during 2004.

*Goodwill and Other Intangible Assets*

We adopted Statement No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. Statement No. 142 addresses the financial accounting and reporting standards for the acquisition of intangible assets outside of a business combination and for goodwill and other intangible assets subsequent to their acquisition. As a result of adopting Statement No. 142, we no longer amortize goodwill and indefinite-lived intangible assets; rather they are written-down, as needed, based upon an analysis of impairment. During the first half of 2002, we completed our transitional impairment review, as required by Statement No. 142, and determined that there was no impairment. Additionally, we perform an impairment test on an annual basis or more frequently if circumstances warrant. The most recent impairment test was conducted in the fourth quarter of 2003 and resulted in no impairment. Intangible assets that have definitive useful lives continue to be amortized over their useful lives.

*Impairment of Other Long-Lived Assets*

Other long-lived assets include property, plant, and equipment and intangibles with definite lives. We perform impairment analyses of our other long-lived assets whenever events and circumstances indicate that they may be impaired. When the undiscounted future cash flows are expected to be less than the carrying value of the assets being reviewed for impairment, the assets are written down to fair market value based upon third party appraisals.

*Research and Development*

Research and development expenditures are expensed when incurred and are included in the selling, general and administrative expense in the Consolidated Statements of Operations. Our research and development expenditures for the years ended December 31, 2003, 2002 and 2001, were \$2.4 million, \$2.8 million and \$2.6 million, respectively.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*Income Taxes*

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

*Environmental Compliance and Remediation*

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

*Foreign Currency Translation*

Our international subsidiaries operate and report their financial results using local functional currencies. Accordingly, all assets and liabilities of these subsidiaries are translated into United States dollars using exchange rates in effect at the end of the relevant periods, and revenues and costs are translated using weighted average exchange rates for the relevant periods. The resulting translation adjustments are presented as a separate component of accumulated other comprehensive income. We do not provide for U.S. income taxes on foreign currency translation adjustments since we do not provide for such taxes on undistributed earnings of foreign subsidiaries.

*Earnings Per Common Share*

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

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

	Year Ended December 31,								
	2003			2002			2001		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS	\$ 17,873	15,207	\$ 1.18	\$ 15,577	15,028	\$ 1.04	\$ 15,596	14,477	\$ 1.08
Dilutive securities, principally common stock options	–	468	0.04	–	582	0.04	–	546	0.04
Diluted EPS	\$ 17,873	15,675	\$ 1.14	\$ 15,577	15,610	\$ 1.00	\$ 15,596	15,023	\$ 1.04

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Certain stock options to purchase common shares were not included in the table above because they were anti-dilutive. The options excluded from the table for the years ended December 31, 2003, 2002 and 2001 were: 5,000 options at \$19.75, 255,500 options at \$16.32 and \$260,500 options at \$16.32, respectively.

*Stock Based Compensation*

We measure compensation cost in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” (“APB No. 25”) and related interpretations. Accordingly, no accounting recognition is given to stock options granted to our employees at fair market value until the options are exercised. Upon exercise, we credit the net proceeds, including income tax benefits realized, if any, to equity. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, “Accounting for Stock Based Compensation”, to stock based employee compensation (In thousands, except per share data):

	<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Net income	\$ 17,873	\$ 15,577	\$ 15,596
Stock-based employee compensation cost, net of tax, that would have been included in the determination of income if the fair value based method had been applied to all awards	845	658	397
Pro forma net income as if the fair value based method had been applied to all awards	<u>\$ 17,028</u>	<u>\$ 14,919</u>	<u>\$ 15,199</u>
<b>Earnings per common share (as reported):</b>			
Basic	\$ 1.18	\$ 1.04	\$ 1.08
Diluted	\$ 1.14	\$ 1.00	\$ 1.04
<b>Pro forma earnings per common share:</b>			
Basic	\$ 1.12	\$ 0.99	\$ 1.05
Diluted	\$ 1.09	\$ 0.96	\$ 1.01

*Derivative Financial Instruments*

We use foreign currency forward exchange contracts to manage currency exchange exposures in certain foreign currency denominated transactions. Gains and losses on contracts designated as hedges are recognized when the contracts expire, which is generally in the same time period as the underlying foreign currency denominated transactions. Gains and losses on contracts that do not qualify for hedge accounting treatment are recognized as incurred as a component of other non-operating income or expense.

*New Accounting Standards*

In July 2002, FASB Statement No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” (“Statement No. 146”) was issued. Statement No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement is effective for fiscal years beginning after December 31, 2002. The adoption of Statement No. 146 did not have a material impact on our reported consolidated results of operations or financial position.

FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Nos. 5, 57, and 107 and

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Rescission of FASB Interpretation No. 34,” (“FIN No. 45”) was issued in November, 2002. FIN No. 45 elaborates on the disclosures to be made by a guarantor and clarifies requirements relating to the guarantor’s accounting for, and disclosure of, the issuance of certain types of guarantees. FIN No. 45 requires that upon issuance of a guarantee, companies recognize a liability for the fair value of the obligation it assumes under that guarantee. We adopted the annual disclosure provisions as of December 31, 2002. We adopted the provisions for initial recognition and measurement during the first quarter of 2003. We do offer warranties, however, the returns and repair costs incurred under warranty have been immaterial. The adoption of FIN No. 45 did not have a material effect on our consolidated financial statements.

In January 2003, FASB Interpretation No. 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51,” (“FIN No. 46”) was issued. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective for all new variable interest entities created or acquired after January 31, 2003. During December 2003, the FASB issued a revision to FIN No. 46 (“FIN No. 46R”). Under the revised provisions, public entities are required to apply the guidance if the entity has interests in variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. We have no variable interest entities at this time, and as such, the adoption of FIN Nos. 46 and 46R did not have a material effect on our consolidated financial statements.

In April 2003, the FASB issued Statement No. 149, “Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities,” (Statement No. 149). Statement No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities”. Statement No. 149 is effective for contracts entered into or modified after September 30, 2003, and for hedging relationships designated after September 30, 2003 and is to be applied prospectively. The adoption of Statement No. 149 did not have a material impact on our consolidated financial statements.

In May 2003, FASB Statement No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,” (“Statement No. 150”) was issued. Statement No. 150 establishes standards for how an issuer classifies and measures in its balance sheet certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify instruments within its scope as a liability (or an asset in some circumstances) in the statement of financial position. Statement No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. We are not party to any such financial instruments as defined under Statement No. 150, and therefore, the adoption of this statement did not have a material effect on our consolidated financial statements.

In November 2003, the FASB issued FASB Staff Position No. 150-3 (“FSS 150-3”) which deferred the effective dates for applying certain provisions of Statement No. 150 related to mandatorily redeemable financial instruments of certain non-public entities and certain mandatorily redeemable non-controlling interests for public and non-public companies. For public entities, Statement No. 150 is effective for mandatorily redeemable financial instruments entered into or modified after May 31, 2003 and is effective for all other financial instruments as of the first interim period beginning after June 15, 2003. For mandatorily redeemable

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

non-controlling interests that would not have to be classified as liabilities by a subsidiary, but would have to be classified as liabilities by the parent, the classification and measurement provisions of Statement No. 150 are deferred indefinitely. The measurement provisions of Statement No. 150 are also deferred indefinitely for other mandatorily redeemable non-controlling interests that were issued before November 4, 2003. For those instruments, the measurement guidance for redeemable shares and non-controlling interests in other literature shall apply during the deferral period. We are not party to any such financial instruments as defined under FSS No. 150, and therefore, the adoption of this statement did not have a material effect on our consolidated financial statements or disclosures.

*Reclassifications*

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

**(3) Business Acquisitions**

During September 2002, we reduced recorded goodwill by \$0.6 million as a result of the recovery of a portion of our purchase price paid for our July 1998 acquisition of Hoke, Inc. (“Hoke”). This recovery of purchase price was in accordance with an arbitration agreement with the former shareholders of Hoke, who awarded us the rights to the recovery of certain previously paid income taxes. During December 2003, we further reduced recorded goodwill by \$0.4 million upon receiving notification of acceptance of a claim for the recovery of additional previously paid income taxes. This recovery, also due us in accordance with the arbitration agreement, was received during January 2004.

On June 25, 2001, we acquired a 75% interest in Regeltechnik Kornwestheim GmbH and affiliates (“RTK”), a German closed corporation. The aggregate purchase price paid for RTK was \$10.6 million; net of cash acquired and included the assumption of \$4.2 in long-term debt. RTK manufactures and sells control valves, regulators, actuators and related instrumentation products primarily for steam and fluid process applications in the HVAC, industrial, food, beverage and pharmaceutical markets. On February 5, 2002, the minority interest shareholder of RTK exercised the put option granted to him in the purchase agreement, thereby electing to sell us the remaining 25% interest in RTK. Accordingly, during March 2002 we paid cash of approximately \$2.5 million for the purchase of this 25% interest in RTK, resulting in \$1.3 million of additional goodwill. The aggregate purchase price for RTK acquisition was \$13.0 million, consisting of \$8.8 million of cash, net of acquired cash, and the assumption of \$4.2 million of long-term debt. The excess of the purchase price over the fair value of the net identifiable assets of \$5.2 million acquired has been recorded as goodwill. The results of operations for this business have previously been included in our consolidated financial statements from the date our initial 75% ownership share was acquired in June 2001.

On June 29, 2001, we acquired 100% interest in Société Alsacienne Regulaves Thermiques von Rohr, S.A. (“SART”), a French limited liability company. SART manufactures and sells control valves, regulators, actuators and related instrumentation products primarily for steam and fluid process applications in the HVAC, industrial, food, beverage and pharmaceutical markets. We paid \$2.8 million in cash; net of \$0.1 million in cash acquired, and assumed \$0.3 million of long-term debt for an aggregate purchase price of \$3.1 million. The excess of the purchase price over the fair value of the net identifiable assets of \$0.7 million acquired has been recorded as goodwill. The results of operations of SART have been included in our consolidated financial statements since the date of acquisition.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

During June 2002, we received \$0.5 million in cash representing a purchase price adjustment relating to the resolution of indemnification claims that were previously made against the former owners of Leslie Controls, Inc. The refunded cash purchase price was accounted for as a reduction of recorded goodwill.

In October 2002, we purchased Tomco Products, Inc. (“Tomco”) and U.S. Para Plate Corporation (“USPP”) for an aggregate of \$17.6 million in cash. We assumed \$0.7 million in long-term debt, received \$2.5 million in cash, and \$4.0 million in investments at fair market value in connection with these transactions. We also deposited an additional \$2.3 million into separate escrow accounts for the benefit of the sellers subject to any such claims by us as are allowed in accordance with the purchase agreements. Any funds remaining in the escrow account at the conclusion of the contingency periods will be distributed to the sellers and accounted for as additional purchase price. Tomco, located in Painesville, Ohio, manufactures a full line of quick connect and disconnect couplers for general purpose industrial applications and for use in more sophisticated instrumentation markets. USPP, located in Auburn, California, develops and produces high-pressure valves and regulators for industrial, aerospace and military applications. The combined annual revenues for both Tomco and USPP had been approximately \$13.0 million. We financed both of these acquisitions through our available cash flow. The \$9.5 million excess of the original purchase price over the combined fair value of the net identifiable assets was recorded as goodwill. During October 2003, we increased the recorded goodwill for Tomco by \$1.0 million upon the release to the former selling shareholders of funds previously held in escrow. The \$9.5 million of goodwill recorded for Tomco as of December 31, 2003 is expected to be deductible for tax purposes.

On November 14, 2003, we acquired DQS International B.V. (“DQS”), headquartered in Rotterdam, the Netherlands, for \$6.0 million in cash and the assumption of \$0.8 million of net debt. We also deposited an additional \$0.6 million into a separate escrow account for the benefit of the sellers, subject to any such claims by us as are allowed in accordance with the purchase agreement. Any funds remaining in the escrow account at the conclusion of the contingency period will be distributed to the sellers and accounted for as an additional purchase price. The \$4.1 million excess of the original purchase price over the fair value of the net identifiable assets is recorded as goodwill and is expected to be deductible for tax purposes.

On December 11, 2003, we acquired Texas Sampling, Inc. (“TSI”), located in Victoria, Texas for \$4.4 million in cash. We also deposited an additional \$0.2 million into a separate escrow account for the benefit of the sellers, subject to any such claims by us as are allowed in accordance with the purchase agreement. The \$3.7 million excess of the original purchase price over the fair value of net identifiable assets is recorded as goodwill and is expected to be deductible for tax purposes. Any funds remaining in the escrow account at the conclusion of the contingency period will be distributed to the sellers and accounted for as an additional purchase price.

Both DQS and TSI manufacture and distribute a product line of analytical sampling systems to process manufacturers. The DQS and TSI product lines have well established brand recognition and are well known within the industry. The combined annual revenues for DQS and TSI were approximately \$9.1 million. We financed both of these acquisitions from available cash balances and we accounted for these transactions as purchase business combinations. The allocations of the purchase price for DQS and TSI are preliminary in nature and will be finalized in 2004.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table reflects unaudited pro forma consolidated results on the basis that TSI, DQS, Tomco, USPP, RTK and SART acquisitions took place and were recorded at the beginning of the year for each of the respective periods presented (Unaudited, in thousands, except per share data):

	Year Ended December 31,		
	2003	2002	2001
Net revenue	\$ 367,544	\$ 352,086	\$ 371,993
Net income	\$ 18,179	\$ 17,319	\$ 17,763
Earnings per share: basic	\$ 1.14	\$ 1.15	\$ 1.23
Earnings per share: diluted	\$ 1.11	\$ 1.11	\$ 1.18

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

The following tables provide reconciliations of the net cash paid and goodwill recorded for acquisitions during the years ended December 31, 2003, 2002 and 2001 (In thousands):

	Year Ended December 31,		
	2003	2002	2001
<b>Reconciliation of net cash paid:</b>			
Fair value of assets acquired	\$ 13,530	\$ 24,960	\$ 19,542
Purchase price adjustment	1,029	(1,088)	–
Less: liabilities assumed	3,141	2,377	9,140
	11,418	21,495	10,402
Cash paid	11,418	21,495	10,402
Less: cash acquired	770	2,619	785
	\$ 10,648	\$ 18,876	\$ 9,617
Net cash paid for acquired businesses	\$ 10,648	\$ 18,876	\$ 9,617
<b>Determination of goodwill:</b>			
Cash paid, net of cash acquired	\$ 10,648	\$ 18,876	\$ 9,617
Liabilities assumed	3,141	2,377	9,140
Less: fair value of tangible assets acquired, net of cash acquired	5,335	11,780	13,764
	\$ 8,454	\$ 9,473	\$ 4,993
Goodwill	\$ 8,454	\$ 9,473	\$ 4,993

**(4) Investments**

All investments are designated as available for sale. Investments at December 31, 2003 and 2002 are as follows (In thousands):

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2003:</b>				
Guaranteed investment contracts maturing in various periods to December 2004 at rate of 2.50% to 3.00%	\$ 7,840	\$ –	\$ –	\$ 7,840
	\$ 7,840	\$ –	\$ –	\$ 7,840
<b>December 31, 2002:</b>				
U.S. government agency mutual funds	\$ 3,150	\$ 27	\$ –	\$ 3,177
Equity mutual funds	254	–	5	249
Equity securities	633	8	3	638
	\$ 4,037	\$ 35	\$ 8	\$ 4,064

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**(5) Inventories**

Inventories consist of the following (In thousands):

	December 31,	
	2003	2002
Raw materials	\$ 38,120	\$ 44,065
Work in process	27,991	26,480
Finished goods	31,167	39,742
	\$ 97,278	\$ 110,287

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

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

	December 31,	
	2003	2002
Land	\$ 6,324	\$ 6,433
Buildings and improvements	32,411	33,406
Machinery and equipment	124,451	118,234
Construction in progress	502	925
	163,688	158,998
Accumulated depreciation	(101,951)	(94,633)
	\$ 61,737	\$ 64,365

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

In accordance with Statement No. 142, we completed a transitional goodwill impairment evaluation by comparing the fair value of our reporting units as of January 1, 2002 to their carrying values and determined that the fair value of the reporting units' goodwill exceeded their carrying value and that no impairment existed. We completed our annual goodwill impairment valuation as of November 1, 2003 during the fourth quarter of 2003, and determined that the fair value of the reporting units' goodwill exceeded their carrying value and that no impairment existed for the annual evaluation as well.

The following table shows goodwill, by segment, net of accumulated amortization, as of December 31, 2003 (In thousands):

	<b>Instrumentation &amp; Thermal Fluid Controls Products</b>	<b>Petrochemical Products</b>	<b>Consolidated Total</b>
Goodwill as of December 31, 2002	\$ 88,472	\$ 11,947	\$ 100,419
Business acquisitions (see Note 3)	7,425	–	7,425
Purchase price adjustment of previous acquisitions (see Note 3)	1,029	–	1,029
Currency translation adjustments	2,030	545	2,575
	98,956	12,492	111,448
Goodwill as of December 31, 2003	\$ 98,956	\$ 12,492	\$ 111,448

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

In accordance with Statement No. 142, goodwill associated with acquisitions consummated after June 30, 2001 is not amortized and the amortization of goodwill from business combinations consummated before June 30, 2001 ceased on January 1, 2002.

The following table reflects the results of operations had Statement No. 142 been adopted and applied to all prior periods (In thousands, except per share data):

	<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Net income	\$ 17,873	\$ 15,577	\$ 15,596
Goodwill amortization expense	–	–	2,737
<b>Adjusted net income</b>	<b>\$ 17,873</b>	<b>\$ 15,577</b>	<b>\$ 18,333</b>
<b>Basic earnings per Share:</b>			
Net income	\$ 1.18	\$ 1.04	\$ 1.08
Goodwill amortization expense	–	–	0.19
<b>Adjusted net income</b>	<b>\$ 1.18</b>	<b>\$ 1.04</b>	<b>\$ 1.27</b>
<b>Diluted earnings per share:</b>			
Net income	\$ 1.14	\$ 1.00	\$ 1.04
Goodwill amortization expense	–	–	0.18
<b>Adjusted net income</b>	<b>\$ 1.14</b>	<b>\$ 1.00</b>	<b>\$ 1.22</b>

The table below presents gross intangible assets and the related accumulated amortization as of December 31, 2003 (In thousands):

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Patents	\$ 5,140	\$ (4,840)
Trademarks and trade names	502	(119)
Land use rights	1,180	(282)
Other	60	(54)
<b>Total</b>	<b>\$ 6,882</b>	<b>\$ (5,295)</b>
<b>Net carrying value of intangible assets</b>	<b>\$ 1,587</b>	

The table below presents estimated amortization expense for intangible assets recorded as of December 31, 2003 (In thousands):

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>After 2008</b>
Estimated amortization expense	\$ 190	\$ 149	\$ 116	\$ 64	\$ 64	\$ 1,004

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**(8) Income Taxes**

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

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
<b>Deferred income tax liabilities:</b>		
Excess tax over book depreciation	\$ 7,451	\$ 7,320
Inventory	2,050	2,323
Goodwill	1,866	1,088
Other	249	1,072
	<b>11,616</b>	<b>11,803</b>
<b>Deferred income tax assets:</b>		
Accrued expenses	5,272	6,104
Net operating loss and credit carry-forward	1,700	1,741
Cost basis differences in intangible assets	939	1,290
Other	4,505	5,330
	<b>12,416</b>	<b>14,465</b>
Valuation allowance	800	712
	<b>11,616</b>	<b>13,753</b>
Deferred income tax asset, net	<b>\$ –</b>	<b>\$ 1,950</b>
<b>The above components of deferred income taxes are classified in the consolidated balance sheets as follows: (In thousands)</b>		
Net current deferred income tax asset	\$ 6,303	\$ 5,884
Net non-current deferred income tax liability	(6,303)	(3,934)
	<b>\$ –</b>	<b>\$ 1,950</b>

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

	<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Domestic	\$ 13,401	\$ 15,516	\$ 18,699
Foreign	12,272	8,823	7,295
	<b>\$ 25,673</b>	<b>\$ 24,339</b>	<b>\$ 25,994</b>

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

	Year Ended December 31,		
	2003	2002	2001
<b>Current tax expense:</b>			
Federal	\$ 2,188	\$ 1,714	\$ 7,030
Foreign	4,044	3,604	2,380
State	196	380	699
	6,428	5,698	10,109
<b>Deferred tax expense (benefit):</b>			
Federal	953	3,334	9
Foreign	284	(572)	180
State	135	302	100
	1,372	3,064	289
	\$ 7,800	\$ 8,762	\$ 10,398

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

	Year Ended December 31,		
	2003	2002	2001
Computed expected federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	0.8	1.8	2.0
Goodwill amortization	–	–	2.9
Foreign tax rate differential	(0.1)	0.6	–
Extraterritorial income exclusion (formerly FSC)	(2.9)	(2.2)	(2.0)
Research and experimental credit	(2.2)	–	–
Other, net	(0.2)	0.8	2.1
	30.4%	36.0%	40.0%
<b>Effective Tax Rate</b>	<b>30.4%</b>	<b>36.0%</b>	<b>40.0%</b>

At December 31, 2003, we had foreign net operating loss of \$0.3 million, and foreign and general business tax credits of \$0.8 million. We also had state net operating losses of \$5.6 million and state tax credits of \$0.5 million. At December 31, 2002, we had foreign net operating losses of \$0.9 million, foreign tax credits of \$0.8 million, state net operating losses of \$5.3 million, and state tax credits of \$0.4 million. The foreign net operating losses at 2003 can be carried forward five years and if not utilized will expire in 2006 and 2007. Foreign tax credits if not utilized will expire in 2005. The state net operating losses and state tax credits if not utilized will expire in 2014 through 2022. We had a valuation allowance of \$0.8 million and \$0.7 million as of December 31, 2003 and December 31, 2002, respectively, against the state net operating losses and state tax credits. We believe that after considering all of the available objective evidence, it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets.

Undistributed earnings (deficit) of our foreign subsidiaries amounted to \$5.3 million at December 31, 2003 and (\$0.5) million at December 31, 2002. Those earnings are considered to be indefinitely reinvested and,

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

accordingly, no provision for U.S. federal and state income taxes has been recorded thereon. Upon distribution of those earnings, in the form of dividends or otherwise, we will be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of U.S. income tax liability that would be incurred is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of any U.S. income tax liability. Withholding taxes of \$0.2 million would be payable upon remittance of all previously unremitted earnings at December 31, 2003.

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

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

	December 31,	
	2003	2002
Commissions and sales incentives payable	\$ 7,523	\$ 4,900
Insurance	1,700	2,627
Other	10,732	7,188
	\$ 19,955	\$ 14,715

**(10) Financing Arrangements**

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

	December 31,	
	2003	2002
Senior unsecured notes, annual principal payments of \$15.0 million through October 19, 2006, at a fixed interest rate of 8.23%	\$ 45,000	\$ 60,000
Industrial revenue bonds, maturing in December 2006 and August 2019, at variable interest rates of 1.25% and 1.36% at December 31, 2003, and 1.45% and 1.64% at December 31, 2002	12,260	12,260
Capital lease obligations	122	3
Other borrowings, at varying interest rates ranging from 1.62% to 8.5% in 2003 and 1.62% to 8.5% in 2002	3,677	5,727
	61,059	77,990
Less: current portion	17,268	18,596
	\$ 43,791	\$ 59,394

On October 18, 1999, we entered into a \$75.0 million unsecured revolving credit agreement maturing in October 2003. On December 4, 2002, we revised this credit line by entering into an amendment to the original credit agreement that extends the term of the facility to December 2006. The credit agreement provides us with an option to increase the available line to \$100.0 million. In accordance with the credit agreement, the rate of interest and facility fees we are charged vary based upon changes in our net debt leverage ratio. We can borrow at either the Euro dollar rate plus an applicable margin of 0.625% to 1.625% or at a base rate plus an applicable margin of 0% to 0.25%. The base rate for any day is the higher of the Fed Funds rate plus 0.50% or the lenders Prime rate. We are also required to pay an unused facility fee that can range from 0.15 to 0.35% per annum and a utilization fee of 0.125% per annum if our borrowings exceed 50% of the credit facility limit.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

At December 31, 2003, we had \$75.0 million available from the unsecured revolving credit facility to support our acquisition program, working capital requirements, and for general corporate purposes.

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

Certain of our loan agreements contain covenants that require, among other items, maintenance of certain financial ratios and also limit our ability to: enter into secured and unsecured borrowing arrangements; issue dividends to shareholders; acquire and dispose of businesses; invest in capital equipment; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. We completed an amendment to our revolving line of credit agreement, effective December 31, 2003, that permits foreign subsidiaries to invest their excess cash in high quality securities backed by well capitalized institutions in their respective countries rather than requiring such excess cash to be brought back to the U.S. for investment. We were in compliance with all covenants related to our existing debt obligations at December 31, 2003 and 2002. We expect to be in compliance with all covenants related to our existing debt obligations through 2004.

At December 31, 2003, minimum principal payments required during each of the next five years are as follows (In thousands):

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>After 2008</u>
Minimum principal payments	\$ 17,268	\$ 16,178	\$ 22,743	\$ –	\$ –	\$ 4,870

**(11) Stock-Based Compensation**

The 1999 Stock Option and Incentive Plan (the “1999 Stock Plan”) adopted by our Board of Directors permits the grant of the following types of awards to our officers, other employees and non-employee directors: incentive stock options, non-qualified stock options, deferred stock awards, restricted stock awards, unrestricted stock awards, performance share awards, stock appreciation rights (“SARs”) and dividend equivalent rights. The 1999 Stock Plan provides for the issuance of up to 2,000,000 new shares of common stock (subject to adjustment for stock splits and similar events). New options granted under the 1999 Stock Plan could have varying vesting provisions and exercise periods. Options granted vest in periods ranging from 1 to 6 years and expire 10 years after the grant date.

The CIRCOR Management Stock Purchase Plan, which is a component of the 1999 Stock Plan, provides that eligible employees may elect to receive restricted stock units in lieu of all or a portion of their pre-tax annual incentive bonus and, in some cases, make after-tax contributions in exchange for restricted stock units. 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 restricted stock unit represents a right to receive one share of our common stock after a three-year vesting period. Restricted stock units 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 ratably over the vesting period.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

At the spin-off date, vested and non-vested Watts options held by our employees terminated in accordance with their terms and new options of equivalent value were issued under the 1999 Stock Plan to replace the Watts options (“replacement options”). The vesting dates and exercise periods of these options were not affected by the replacement. Based on their original Watts grant date, the CIRCOR replacement options vested during the years 1999 to 2003 and expire 10 years after grant of the original Watts options. Additionally, at the spin-off date, vested and non-vested Watts restricted stock units and SARs held by our employees were converted into comparable restricted stock units and SARs based on our common stock. Vested restricted stock units will be distributed in shares of our common stock. Upon exercise, vested SARs will be payable in cash. At December 31, 2003, there were 158,574 restricted stock units and 9,600 SARs outstanding. Compensation expense related to restricted stock units and SARs for the years ended December 31, 2003, 2002 and 2001 was \$0.6 million, \$0.3 million and \$0.4 million, respectively.

The fair value of the options grants were estimated as of the date of the grants using the Black-Scholes option-pricing model with the following assumptions:

	December 31,		
	2003	2002	2001
Risk-free interest rate	4.0%	4.1%	5.4%
Expected life (years)	7	7	7
Expected stock volatility	44.1%	45.5%	55.7%
Expected dividend yield	0.9%	0.9%	0.9%

A summary of the status of all options granted to employees and non-employee directors at December 31, 2003, 2002, and 2001 and changes during the years then ended is presented in the table below (Options in thousands):

	December 31,					
	2003		2002		2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	1,498	\$ 12.02	1,417	\$ 11.14	1,232	\$ 9.85
Granted	15	15.42	339	13.90	279	16.10
Exercised	(132)	9.59	(234)	9.58	(45)	8.11
Canceled	(46)	13.69	(24)	9.95	(49)	10.59
	1,335	\$ 12.24	1,498	\$ 12.02	1,417	\$ 11.14
Options exercisable at end of period	738	\$ 11.51	644	\$ 10.75	631	\$ 10.49
Weighted average fair value of options granted		\$ 7.18		\$ 6.69		\$ 9.17

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The following table summarizes information about stock options outstanding at December 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options (thousands)	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Options (thousands)	Weighted Average Exercise Price
\$ 7.50 – \$ 8.37	248	5.9	\$ 7.65	139	\$ 7.78
9.43 – 10.38	233	5.6	10.14	192	10.12
11.00 – 13.94	617	6.0	13.28	335	12.82
16.32 – 19.75	237	7.9	16.39	72	16.32
<b>\$ 7.50 – \$19.75</b>	<b>1,335</b>	<b>6.2</b>	<b>\$ 12.24</b>	<b>738</b>	<b>\$ 11.51</b>

**(12) Accumulated Other Comprehensive Income**

Accumulated other comprehensive income at December 31, 2003 consisted of only accumulated translation adjustments of \$14.1 million. The accumulated other comprehensive income as of December 31, 2002 consists of the following (In thousands):

	December 31, 2002		
	Gross Item	Tax Effect	Net of Tax
Cumulative translation adjustment	\$ 1,335	\$ –	\$ 1,335
Additional minimum pension liability	(1,604)	608	(996)
Unrealized net gains-investments	27	(10)	17
<b>Total accumulated comprehensive income (loss)</b>	<b>\$ (242)</b>	<b>\$ 598</b>	<b>\$ 356</b>

**(13) Employee Benefit Plans**

We sponsor two defined benefit pension plans covering substantially all of our U.S. non-union employees. Benefits are based primarily on years of service and employees' compensation. Our funding policy for these plans is to contribute annually the maximum amount that can be deducted for federal income tax purposes. The measurement date for both of our plans is September 30<sup>th</sup>.

Additionally, substantially all of our U.S. employees are eligible to participate in a 401(k) savings plan. Under this plan, we match a specified percentage of employee contributions, subject to certain limitations.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

	Year Ended December 31,		
	2003	2002	2001
<b>Components of net periodic benefit expense:</b>			
Service cost-benefits earned	\$ 1,822	\$ 1,396	\$ 1,210
Interest cost on benefits obligation	983	811	733
Net loss/(gain) amortization	265	–	–
Transition obligation (asset) amortization	(32)	(64)	–
Prior service cost amortization	98	98	30
Estimated return on assets	(968)	(714)	(845)
	<u>2,168</u>	<u>1,527</u>	<u>1,128</u>
Net periodic cost of defined benefits plans	2,168	1,527	1,128
Cost of 401(k) plan company match contributions	282	335	368
	<u>2,450</u>	<u>1,862</u>	<u>1,496</u>
Net benefit plans expense	\$ 2,450	\$ 1,862	\$ 1,496

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

	Year Ended December 31,		
	2003	2002	2001
<b>Net periodic benefit cost:</b>			
Discount rate	6.75%	7.50%	8.00%
Expected return on plan assets	8.75%	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%	5.00%
<b>Benefit obligations:</b>			
Discount rate	6.00%	6.75%	7.50%
Rate of compensation increase	4.00%	4.00%	4.00%

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

A 25 basis point increase or decrease in the expected return of plan assets would increase or decrease the pension expense by less than \$0.1 million. A 25 basis point increase or decrease in the assumed discount rate assumption would increase or decrease our interest expense by approximately \$0.1 million.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The funded status of the defined benefit plan and amounts recognized in the balance sheet are as follows (In thousands):

	December 31,	
	2003	2002
<b>Change in projected benefit obligation:</b>		
Balance at beginning of year	\$ 17,321	\$ 11,316
Service cost	1,822	1,396
Interest cost	983	811
Actuarial loss	2,461	1,491
Benefits paid	(216)	(157)
Administrative expenses	(221)	(209)
Liabilities acquired or adjusted	(57)	2,673
	\$ 22,093	\$ 17,321
<b>Change in fair value of plan assets:</b>		
Balance at beginning of year	\$ 12,496	\$ 6,691
Actual return on assets	2,033	(1,108)
Benefits paid	(216)	(157)
Administrative expenses	(221)	(209)
Assets acquired or adjusted	332	1,562
Employer contributions	3,000	5,717
	\$ 17,424	\$ 12,496
<b>Funded status:</b>		
Plan assets less than projected benefit obligation	\$ (4,669)	\$ (4,825)
Unrecognized transition asset	(40)	(72)
Unrecognized prior service cost	759	857
Unrecognized actuarial loss	5,308	4,566
	\$ 1,358	\$ 526

The aggregate accumulated benefit obligation at December 31, 2003 and 2002 is \$18.3 million and \$13.6 million, respectively. The accumulated benefit obligation and plan assets for the funded pension plan were \$17.3 million and \$17.4 million, respectively, for the year ended December 31, 2003, and \$12.9 million and \$12.5 million, respectively, for the year ended December 31, 2002. The accumulated benefit obligation for the unfunded pension plan was \$1.0 million and \$0.7 million for the years ended December 31, 2003 and 2002, respectively.

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

	2003	2002
Equity securities	72.5%	55.2%
Debt securities	27.5%	22.2%
Cash	–	22.6%
	100.0%	100.0%

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

Our best estimate for expected contributions to the pension plans for 2004 is from \$1 million to \$3 million.

During the year ended December 31, 2002, a \$2.3 million adjustment was made to record the minimum pension liability required to the extent the accumulated benefit obligations exceeded plan assets as of September 30, 2002, the plan measurement date. In conjunction with the adjustment to the liability account, a \$0.7 million intangible asset was recorded up to the amount of unrecognized prior service cost for those plans. A \$1.0 million corresponding charge, net of tax, was recorded to other accumulated comprehensive income. All of the above adjustments were reversed in 2003 as a result of the increased market value of plan assets exceeding the plan's current liability as of the measurement date, September 30, 2003.

**(14) Contingencies, Environmental Remediation and Guarantees**

We, like other worldwide manufacturing companies, are subject to a variety of potential liabilities connected with our business operations, including potential liabilities and expenses associated with possible product defects or failures and compliance with environmental laws. We maintain liability insurance coverage which we believe to be consistent with industry practices. Nonetheless, such insurance coverage may not be adequate to protect us fully against substantial damage claims, which may arise from product defects and failures or from environmental liability.

*Contingencies*

Like many other manufacturers of fluid control products, we have been named as defendants in a growing number of product liability actions brought on behalf of individuals who seek compensation for their alleged exposure to airborne asbestos fibers. In particular, our subsidiaries, Leslie Controls, Inc. ("Leslie"), Spence Engineering Company, Inc. ("Spence"), and Hoke, collectively have been named as defendants or third-party defendants in asbestos related claims brought on behalf of approximately 22,000 plaintiffs against anywhere from 50 to 400 defendants. In some instances, we also have been named individually and/or as successor in interest to one or more of these subsidiaries. These cases have been brought in state courts in Alabama, California, Connecticut, Georgia, Maryland, Michigan, Mississippi, New Jersey, New York, Rhode Island, Texas, Utah and Washington, with the vast majority of claimants having brought their claims in Mississippi. The cases brought on behalf of the vast majority of claimants seek unspecified compensatory and punitive damages against all defendants in the aggregate. However, the complaints filed on behalf of claimants who do seek specified compensatory and punitive damages typically seek millions or tens of millions of dollars in damages against the aggregate of defendants.

Any components containing asbestos formerly used in Leslie, Spence and Hoke products were entirely internal to the product and, we believe, would not give rise to ambient asbestos dust during normal operation or during normal inspection and repair procedures. Moreover, to date, our insurers have been paying the vast majority of the costs associated with the defense of these actions, particular with respect to Spence and Hoke for

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

which insurance has paid all defense costs to date. As we previously have disclosed, due to certain gaps in historical insurance coverage, Leslie Controls had been responsible for in excess of 40% of the defense costs associated with asbestos actions. However, during 2003 we discovered evidence of additional policy coverage. As a result, we recently negotiated a revised cost sharing understanding with Leslie's insurers which results in a lowering of Leslie's responsibility to 29% of defense costs. In light of the foregoing, we believe that we have minimal, if any, liability with respect to the vast majority of these cases and that these cases, in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows. However, due to the nature and number of variables associated with asbestos related claims, such as the rate at which new claims may be filed; the availability of insurance policies to continue to recover certain of our costs relating to the defense and payment of these claims; the impact of bankruptcies of other companies currently or historically defending asbestos claims including our co-defendants; the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case; the impact of potential changes in legislative or judicial standards; the type and severity of the disease alleged to be suffered by each claimant; and increases in the expense of medical treatment, we are unable to reliably estimate the ultimate costs to us of these claims.

During the fourth quarter of 2003, we entered into a monetary settlement with the United States Customs Service in order to resolve its previously disclosed investigation of our KF Industries subsidiary. This settlement did not have a material financial impact on our financial statements, and we now consider this matter to be closed.

*Environmental Remediation*

We are currently a party to or otherwise involved in various administrative or legal proceedings under federal, state or local environmental laws or regulations involving a number of sites, in some cases as a participant in a group of potentially responsible parties, referred to as PRPs. Two of these sites, the Sharkey and Combe Landfills in New Jersey, are listed on the National Priorities List. With respect to the Sharkey Landfill in New Jersey, we have been allocated 0.75% of the remediation costs, an amount that is not material to us. With respect to the Combe Landfill, we have settled both the Federal Government's claim and the State of New Jersey's claim for an amount that is immaterial to us. Moreover, our insurers have covered defense and settlement costs to date with respect to the Sharkey and Combe Landfills. In addition, we have also been named as a PRP with respect to the Solvent Recovery Service of New England site and the Old Southington landfill site, both in Connecticut. These sites are also on the National Priorities List but, with respect to both sites, we have the right to indemnification from the prior owners of the affected subsidiaries. We also have been identified as a PRP with respect to the Lightman Drum Company site in New Jersey and, in this matter; we also have the right to indemnification from the former owners of the affected subsidiary. Based on currently available information, we believe that any share of clean-up costs at these sites attributable to us will not be material, particularly given our indemnification rights against the respective former owners.

We have reviewed all of our pending judicial and legal proceedings, reasonably anticipated costs and expenses in connection with such proceedings, and availability and limits of our insurance coverage, and we have established reserves that we believe are appropriate in light of those outcomes that we believe are probable and estimable at this time.

*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

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

instruments was \$10.4 million at December 31, 2003. Our historical experience with these types of instruments has been good and no claims have been paid in the current or past four fiscal years. We believe that the likelihood of demand for payments relating to the outstanding instruments is remote. These instruments have expiration dates ranging from less than one month to five years from December 31, 2003.

The following table contains information related to standby letters of credit instruments outstanding as of December 31, 2003 (In thousands):

<u>Term Remaining</u>	<u>Maximum Potential Future Payments</u>
0-12 months	\$ 8,222
Greater than 12 months	2,168
<b>Total</b>	<b>\$ 10,390</b>

**(15) Financial Instruments**

*Fair Value*

The carrying amounts of cash and cash equivalents, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments. Investments are marked to market at the balance sheet date. The fair value of the senior unsecured notes, based on the value of comparable instruments brought to market, is \$47.9 million as of December 31, 2003. The fair value of the Company's variable rate debt approximates its carrying value.

As of January 1, 2001, we adopted FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("Statement No. 133"), as amended by Statement No. 138. Statement No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires that all derivative instruments be recorded on the balance sheet at fair value as assets or liabilities. The adoption of Statement No. 133 did not have a material effect on assets, liabilities, accumulated comprehensive income or net income.

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

*Accounting Policies*

Using qualifying criteria defined in Statement No. 133, derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument that are highly effective are deferred in accumulated other comprehensive income or loss until the underlying hedged item is recognized in earnings. If the effective portion of fair value or cash flow hedges were to cease to qualify for hedge accounting, or to be terminated, it

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

would continue to be carried on the balance sheet at fair value until settled; however, hedge accounting would be discontinued prospectively. If forecast transactions were no longer probable of occurring, amounts previously deferred in accumulated other comprehensive income or loss would be recognized immediately in earnings.

*Foreign Currency Risk*

We use forward contracts to manage the currency risk related to business transactions denominated in foreign currencies. To the extent the underlying transactions hedged are completed, the contracts do not subject us to significant risk from exchange rate movements because they offset gains and losses on the related foreign currency denominated transactions. Our foreign currency forward contracts have not been designated as hedging instruments and, therefore, did not qualify for fair value or cash flow hedge treatment under the criteria of Statement No. 133 for the year ended December 31, 2003. Therefore, the unrealized gains and losses on our contracts have been recognized as a component of other expense in the consolidated statements of operations. There were no net unrealized gains attributable to foreign currency forward contracts at December 31, 2003, and \$0.1 million at December 31, 2002. As of December 31, 2003, we had no forward contracts to buy currencies.

*Operating Lease Commitments*

Rental expense under operating lease commitments amounted to: \$4.4 million, \$4.0 million and \$3.4 million for the years ended December 31, 2003, 2002 and 2001, respectively. Minimum rental commitments due under non-cancelable operating leases, primarily for office and warehouse facilities, at December 31, 2003 were (In thousands):

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>After 2008</u>
Minimum lease commitments	\$ 3,889	\$ 3,441	\$ 2,944	\$ 2,736	\$ 2,617	\$ 1,718

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**(16) Segment Information**

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

	<u>Instrumentation &amp; Thermal Fluid Controls Products</u>	<u>Petrochemical Products</u>	<u>Corporate Adjustments</u>	<u>Consolidated Total</u>
<b>Year Ended December 31, 2003</b>				
Net revenues	\$ 200,775	\$ 158,678	\$ –	\$ 359,453
Inter-segment revenues	1,036	451	(1,487)	–
Operating income (loss)	22,218	15,151	(7,382)	29,987
Interest income				(775)
Interest expense				5,926
Other income, net				(837)
Income before income taxes				25,673
Identifiable assets	278,172	171,398	(25,707)	423,863
Capital expenditures	2,750	3,951	122	6,823
Depreciation and amortization	5,430	4,111	321	9,862
<b>Year Ended December 31, 2002</b>				
Net revenues	\$ 190,524	\$ 140,924	\$ –	\$ 331,448
Inter-segment revenues	1,458	68	(1,526)	–
Operating income (loss)	28,614	9,480	(7,720)	30,374
Interest income				(966)
Interest expense				7,687
Other income, net				(686)
Income before income taxes				24,339
Identifiable assets	390,067	165,291	(164,624)	390,734
Capital expenditures	2,134	2,097	187	4,418
Depreciation and amortization	6,057	4,246	347	10,650
<b>Year Ended December 31, 2001</b>				
Net revenues	\$ 193,297	\$ 149,786	\$ –	\$ 343,083
Inter-segment revenues	929	22	(951)	–
Operating income (loss)	32,158	9,194	(7,735)	33,617
Interest income				(922)
Interest expense				8,024
Other expense, net				521
Income before income taxes				25,994
Identifiable assets	268,315	157,672	(39,866)	386,121
Capital expenditures	2,934	1,959	57	4,950
Depreciation and amortization	8,067	4,652	327	13,046

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

In calculating profit from operations for individual reporting segments, substantial administrative expenses incurred at the corporate level that were applicable to the segments were allocated to the segments based upon specific identification of costs, employment related information or net revenues.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

All intercompany transactions have been eliminated, and inter-segment revenues are not significant.

<b>Net revenues by geographic area (In thousands)</b>	<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
United States	\$ 185,690	\$ 182,058	\$ 226,069
Canada	30,150	25,857	32,500
Germany	20,104	17,220	11,706
France	9,061	10,649	9,397
Netherlands	11,304	11,928	5,726
Other	103,144	83,736	57,685
<b>Total revenues</b>	<b>\$ 359,453</b>	<b>\$ 331,448</b>	<b>\$ 343,083</b>

  

<b>Long-lived assets by geographic area (In thousands)</b>			
United States	\$ 38,763	\$ 48,852	
Germany	8,720	7,087	
France	1,319	1,125	
Italy	3,528	2,965	
Canada	2,575	2,165	
Other	6,832	2,171	
<b>Total long-lived assets</b>	<b>\$ 61,737</b>	<b>\$ 64,365</b>	

In March 2002, we transferred SSI from the Petrochemical Products segment to the Instrumentation and Thermal Fluid Controls Products segment. We believe that this change better reflects the products and markets that SSI serves. Prior periods have been restated and net revenues, operating income, and identifiable assets are not materially different with this reclassification.

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<b>Year ended December 31, 2003</b>				
Net revenues	\$ 87,163	\$ 89,224	\$ 86,661	\$ 96,405
Gross profit	24,822	26,921	24,860	28,909
Net income	3,839	4,397	4,379	5,258
Earnings per common share:				
Basic	\$ 0.25	\$ 0.29	\$ 0.29	\$ 0.34
Diluted	0.25	0.28	0.28	0.33
Dividends per common share	\$ 0.0375	\$ 0.0375	\$ 0.0375	\$ 0.0375
Stock Price range:				
High	\$ 16.85	\$ 18.10	\$ 20.95	\$ 24.37
Low	13.16	12.81	17.42	18.95
<b>Year ended December 31, 2002</b>				
Net revenues	\$ 79,462	\$ 82,541	\$ 83,092	\$ 86,353
Gross profit	24,542	24,623	24,040	25,080
Net income	3,685	3,839	3,770	4,283
Earnings per common share:				
Basic	\$ 0.25	\$ 0.26	\$ 0.25	\$ 0.28
Diluted	0.24	0.24	0.24	0.28
Dividends per common share	\$ 0.0375	\$ 0.0375	\$ 0.0375	\$ 0.0375
Stock Price range:				
High	\$ 22.38	\$ 22.25	\$ 18.05	\$ 16.58
Low	16.95	16.85	13.25	11.75

**CIRCOR INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**(18) Special Charges**

During the years ended December 31, 2003, 2002 and 2001, we incurred costs associated with the closure, consolidation and reorganization of certain manufacturing operations as follows (In thousands):

	<u>Severance Benefits</u>	<u>Facility/Exit Costs</u>	<u>Total</u>
Balance as of December 31, 2000	\$ –	\$ –	\$ –
Charges	79	125	204
Less: cash payments	33	57	90
	<hr/>	<hr/>	<hr/>
Balance as of December 31, 2001	46	68	114
	<hr/>	<hr/>	<hr/>
Charges	206	539	745
Less: non-cash property write-down	–	325	325
Less: cash payments	186	264	450
	<hr/>	<hr/>	<hr/>
Balance as of December 31, 2002	66	18	84
	<hr/>	<hr/>	<hr/>
Charges	479	884	1,363
Less: non-cash property write-down	–	354	354
Less: cash payments	352	443	795
	<hr/>	<hr/>	<hr/>
Balance as of December 31, 2003	\$ 193	\$ 105	\$ 298
	<hr/>	<hr/>	<hr/>

Costs incurred in 2003 were related to actions taken in the Thermal Fluid Controls Products Segment and Petrochemical Products Segment of \$0.9 million and \$0.5 million, respectively. Costs incurred during 2002 and 2001 were related to the Petrochemical Products segment. Costs in 2000 were related to actions taken in both the Instrumentation and Thermal Fluid Controls Products and Petrochemical Products segments of \$1.6 million and \$0.3 million, respectively. A write-down of fixed assets of approximately \$0.4 million is included in the facility and exit special charges incurred for the year ended December 31, 2003 related to assets held for sale. As a result of these actions taken there were 116 employee positions terminated during 2003, 16 during 2002 and 36 during 2001. Special charges have been recognized as incurred. The remaining costs at December 31, 2003 are expected to be paid within the first half of 2003.

**(19) Capital Structure**

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

**SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS  
CIRCOR INTERNATIONAL, INC.**

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions (1)</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>		
<b>(In thousands)</b>					
Year ended December 31, 2003					
Deducted from asset account:					
Allowance for doubtful accounts	\$ 2,041	\$ 320	\$ 33 (2)	\$ 275	\$ 2,119
Allowance for inventory	\$ 7,671	\$ 4,218	\$ 161 (3)	\$ 4,154	\$ 7,896
Year ended December 31, 2002					
Deducted from asset account:					
Allowance for doubtful accounts	\$ 2,637	\$ 17	\$ 4 (4)	\$ 617	\$ 2,041
Allowance for inventory	\$ 9,667	\$ 3,383	\$ 397 (4)	\$ 5,776	\$ 7,671
Year ended December 31, 2001					
Deducted from asset account:					
Allowance for doubtful accounts	\$ 2,831	\$ 754	\$ 230 (5)	\$ 1,178	\$ 2,637
Allowance for inventory	\$ 11,084	\$ 3,379	\$ 710 (6)	\$ 5,506	\$ 9,667

- (1) Uncollectible accounts and inventory written-off, net of recoveries.
- (2) Includes \$44 thousand acquired in connection with the acquisition of TSI and DQS.
- (3) Acquired in connection with the acquisition of TSI and DQS.
- (4) Acquired in connection with the acquisition of Tomco and U.S. Para Plate.
- (5) Includes \$223 thousand acquired in connection with the acquisition of RTK and SART.
- (6) Acquired in connection with the acquisition of RTK and SART.

## AMENDMENT No. 3

This AMENDMENT No. 3 (this "Amendment") is effective as of December 31, 2003 (the "Effective Date") among CIRCOR INTERNATIONAL, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the "Company"); each of the Subsidiary Guarantors referred to therein (collectively, the "Subsidiary Guarantors"); each of the lenders that is a signatory hereto (individually, a "Lender" and, collectively, the "Lenders"); and ING CAPITAL LLC, a Delaware limited liability company, as agent for the Lenders (in such capacity, together with its successors in such capacity, the "Agent").

The Company, the Subsidiary Guarantors, the Lenders and the Agent are parties to a Credit Agreement dated as of October 18, 1999 (as heretofore modified and supplemented and in effect on the date hereof, the "Credit Agreement"). The Company, the Subsidiary Guarantors, the Lenders and the Agent wish to amend the Credit Agreement in certain respects and, accordingly, the parties hereto hereby agree as follows:

SECTION 1. Definitions. Except as otherwise defined in this Amendment, terms defined in the Credit Agreement are used herein as defined therein.

SECTION 2. Amendments. Subject to the satisfaction of the conditions precedent specified in Section 4 below, but effective as of the Effective Date, the Credit Agreement shall be amended as follows:

2.01 Definition of "Permitted Investment." The definition of "Permitted Investment" in Section 1.01 of the Credit Agreement shall be amended by deleting the word "and" immediately before clause (c) therein, by adding the word "and" immediately after such clause (c), and by adding the following new clause (d):

"(d) with respect to Investments made by any Foreign Subsidiary: (i) obligations of, or fully guaranteed as principal and interest by, the sovereign jurisdiction under the laws of which such Foreign Subsidiary is organized (but only if a Foreign Subsidiary was organized under such law on December 31, 2003), in each such case maturing not more than 90 days from the date of acquisition thereof, (ii) certificates of deposit, time deposits or similar instruments issued by any financial institution authorized to conduct a banking business in the jurisdiction under the laws of which such Foreign Subsidiary is organized (but only if (x) a Foreign Subsidiary was organized under such law on December 31, 2003, or (y) such financial institution is rated as a prime commercial bank or the equivalent) and having capital, surplus and undivided profits of at least \$500,000,000 (or the equivalent), maturing not more than 90 days from the date of acquisition thereof, and (iii) prime corporate paper of Canadian issuers rated A-1 or better or P-1 or better by Standard & Poor's or Moody's Investors Services, respectively (or the equivalent by Canadian rating agencies)."

SECTION 3. Representations and Warranties. The Company and the Subsidiary Guarantors represent and warrant to the Lenders that the representations and warranties set forth in Section 8 of the Credit Agreement (after giving effect to the amendments to the Credit Agreement provided for by this Amendment No. 3) are true and complete on the Effective Date as if made on and as of the Effective Date and as if each reference in said Section 8 to “this Agreement” included reference to this Amendment (or, if any such representation and warranty is expressly to be made as of a specific date, as of such specific date).

SECTION 4. Conditions Precedent. As provided in Section 2 above, the amendments to the Credit Agreement set forth in said Section 2 shall become effective, as of the Effective Date, upon the satisfaction of the following conditions precedent:

4.01. Execution by All Parties. This Amendment No. 3 shall have been executed and delivered by the Company, the Subsidiary Guarantors and the Majority Lenders.

4.02. Other Documents. Such other documents as the Agent or any Lender or special New York counsel to ING may reasonably request.

SECTION 5. Miscellaneous. Except as herein provided, the Credit Agreement shall remain unchanged and in full force and effect. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Amendment by signing any such counterpart. This Amendment shall be governed by, and construed in accordance with, the law of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the day and year first above written.

CIRCOR INTERNATIONAL, INC.

By: /S/ KENNETH W. SMITH

Title: V.P. Finance

SUBSIDIARY GUARANTORS

CIRCOR, INC.

By: /S/ KENNETH W. SMITH

Name: Kenneth W. Smith  
Title: V.P. Finance

CIRCOR BUSINESS TRUST

By: /S/ DAVID A. BLOSS

Name: David A. Bloss  
Title: Trustee

CIRCOR GERMAN HOLDINGS LLC

By: /S/ KENNETH W. SMITH

Name: Kenneth W. Smith  
Title: VP Finance

CIRCOR IP HOLDING CO.

By: /S/ KENNETH W. SMITH

Name: Kenneth W. Smith  
Title: VP Finance

CIRCLE SEAL CONTROLS, INC.

By: /S/ KENNETH W. SMITH

---

**Name: Kenneth W. Smith**  
**Title: V.P. Finance**

CIRCLE SEAL CORPORATION

By: /S/ KENNETH W. SMITH

---

**Name: Kenneth W. Smith**  
**Title: V.P. Finance**

CIRCOR SECURITIES CORP.

By: /S/ KENNETH W. SMITH

---

**Name: Kenneth W. Smith**  
**Title: VP Finance**

HOKE, INC.

By: /S/ KENNETH W. SMITH

---

**Name: Kenneth W. Smith**  
**Title: VP Finance**

KF INDUSTRIES, INC.

By: /S/ KENNETH W. SMITH

---

**Name: Kenneth W. Smith**  
**Title: VP Finance**

LESLIE CONTROLS, INC.

By: /S/ KENNETH W. SMITH

---

**Name: Kenneth W. Smith**  
**Title: VP Finance**

SPENCE ENGINEERING COMPANY, INC.

By: /S/ KENNETH W. SMITH

---

**Name: Kenneth W. Smith**  
**Title: VP Finance**

U.S. PARA PLATE CORPORATION

By: /S/ KENNETH W. SMITH

---

**Name: Kenneth W. Smith**  
**Title: VP Finance**

ING CAPITAL LLC, as Agent

By: /S/ THOMAS R. HOBBS

---

**Name: Thomas R. Hobbs**  
**Title: Director**

BANKNORTH, N.A.

By: /S/ JON R. SUNDSTROM

---

**Name: Jon R. Sundstrom**  
**Title: Senior Vice President**

KEYBANK NATIONAL ASSOCIATION

By: /S/ THOMAS J. PURCELL

---

**Name: Thomas J. Purcell**  
**Title: Senior Vice President**

BANCA NAZIONALE DEL LAVORO S.P.A.

By: /S/ FREDERIC W. HALL

---

**Name: Frederic W. Hall**  
**Title: Vice President**

By: /S/ FRANCESCO DIMARIO

---

**Name: Francesco DiMario**  
**Title: Vice President**

**LETTER OF CREDIT, REIMBURSEMENT AND  
GUARANTY AGREEMENT**

**Dated as of March 1, 2004**

## TABLE OF CONTENTS

Article I	Definitions	2
Article II	Representations and Warranties of the Guarantor	10
Section 2.1.	Incorporation	10
Section 2.2.	Power and Authority; No Conflicts; Enforceability	10
Section 2.3.	Financial Condition	10
Section 2.4.	Title to Property and Assets	11
Section 2.5.	Litigation	11
Section 2.6.	Taxes	11
Section 2.7.	Trademarks, Franchises and Licenses	11
Section 2.8.	No Default	11
Section 2.9.	Governmental Authority	11
Section 2.10.	ERISA	12
Section 2.11.	Pollution and Environmental Control: Hazardous Substances	12
Section 2.12.	Capital Structure	12
Section 2.13.	Solvent Financial Condition	12
Section 2.14.	Restrictions	12
Section 2.15.	Full Disclosure	12
Section 2.16.	Labor Relations	13
Section 2.17.	Compliance With Laws	13
Section 2.18.	Brokers	13
Section 2.19.	Trade Relations	13
Section 2.20.	Investment Company Act	13
Section 2.21.	Survival of Representations and Warranties	13
Article III	Representations and Warranties of the Borrower	14
Section 3.1.	Incorporation	14
Section 3.2.	Power and Authority	14
Section 3.3.	Governmental Authority	14
Section 3.4.	Project Site	14
Section 3.5.	Survival of Representations and Warranties	14
Article IV	Terms of Letter of Credit, Reimbursement, Other Payments and Guaranty	15
Section 4.1.	Letter of Credit	15
Section 4.2.	Reimbursement and Other Payments	15
Section 4.3.	Tender Advances	15
Section 4.4.	Commission and Fee	16
Section 4.5.	Increased Costs	17
Section 4.6.	Computation	17
Section 4.7.	Parent Procedure	17

Section 4.8.	Business Days	17
Section 4.9.	Reimbursement of Expenses	17
Section 4.10.	Expiration Date	18
Section 4.11.	Guaranty	18
Section 4.12.	Obligations Absolute	19
Section 4.13.	Waiver of Guarantor's Rights	19
Article V Security; Insurance		20
Section 5.1.	Security	20
Section 5.2.	Casualty and Liability Insurance Required	20
Section 5.3.	Notice of Casualty or Taking	20
Article VI Affirmative Covenants		21
Section 6.1.	Financial Reports and Other Data and Information	21
Section 6.2.	Books, Records and Inspections	22
Section 6.3.	Maintenance of Property, Insurance	22
Section 6.4.	Corporate Franchises	23
Section 6.5.	Compliance with Statutes, etc	23
Section 6.6.	ERISA	23
Section 6.7.	Performance of Obligations	23
Section 6.8.	Taxes and Liens	24
Section 6.9.	Payment of Obligations	24
Section 6.10.	Environmental Matters	24
Article VII Negative Covenants		25
Section 7.1.	Negative Pledge; Liens	25
Section 7.2.	Consolidation or Merger	26
Section 7.3.	Sale of Assets, Dissolution, Etc.	26
Section 7.4.	Indebtedness, Loans and Investments	26
Section 7.5.	Leverage Ratio	26
Section 7.6.	Interest Coverage Ratio	26
Section 7.7.	Fixed Charges Coverage Ratio	26
Section 7.8.	Tangible Net Worth	26
Article VIII Conditions to Issuance of Letter of Credit		27
Section 8.1.	Conditions of Issuance	27
Section 8.2.	Additional Conditions Precedent to Issuance of the Letter of Credit	28
Section 8.3.	Conditions Precedent to Each Tender Advance	28
Article IX Default		29
Section 9.1.	Events of Default	29
Section 9.2.	No Remedy Exclusive	30

Article X	Miscellaneous	31
Section 10.1.	Indemnification	31
Section 10.2.	Transfer of Letter of Credit	32
Section 10.3.	Reduction of Letter of Credit	32
Section 10.4.	Liability of the Bank	32
Section 10.5.	Successors and Assigns	32
Section 10.6.	Notices	33
Section 10.7.	Amendment	33
Section 10.8.	Effect of Delay and Waivers	33
Section 10.9.	Counterparts	34
Section 10.10.	Severability	34
Section 10.11.	Cost of Collection	34
Section 10.12.	Set Off	34
Section 10.13.	Governing Law	34
Section 10.14.	References	34
Section 10.15.	Consent to Jurisdiction, Venue	34

**LETTER OF CREDIT, REIMBURSEMENT and  
GUARANTY AGREEMENT**

THIS AGREEMENT, dated as of March 1, 2004, by and among LESLIE CONTROLS, INC., a New Jersey corporation (the "Borrower"), CIRCOR INTERNATIONAL, INC., a Delaware corporation (the "Guarantor"), and SUNTRUST BANK, a state banking association organized and existing under the laws of the state of Georgia with its principal offices located in Atlanta, Georgia (the "Bank");

WITNESSETH:

**WHEREAS**, the Hillsborough County Industrial Development Authority (the "Issuer"), has previously issued its Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994, in the original aggregate principal amount of \$4,765,000, and currently outstanding in the aggregate principal amount of \$4,760,000 (the "Bonds"), pursuant to a Trust Indenture, dated as July 1, 1994 (as the same may be supplemented pursuant to its terms, the "Indenture"), between the Issuer and U.S. Bank National Association, as successor in interest to The First National Bank of Boston, as trustee (together with any successors in trust, the "Trustee"); and

**WHEREAS**, pursuant to a Loan Agreement, dated as July 1, 1994 (as the same may be amended pursuant to its terms and the terms of the Indenture, the "Loan Agreement"), between the Issuer and the Borrower, the Issuer loaned the proceeds of the Bonds to the Borrower (i) to finance the acquisition, construction and equipping of certain facilities more fully described in the Loan Agreement (the "Project"), and (ii) to pay certain costs of issuing the Bonds; and

**WHEREAS**, Wachovia Bank, National Association issued an irrevocable, direct-pay letter of credit (as the same has been or may be amended from time to time, the "Wachovia Letter of Credit") to serve as additional security for payment of the Bonds; and

**WHEREAS**, under the terms of the Indenture and upon the meeting of certain requirements therein, the Borrower may substitute the Wachovia Letter of Credit with an Alternate Credit Facility (as defined in the Indenture); and

**WHEREAS**, the Bank is willing to issue a Letter of Credit to replace the Wachovia Letter of Credit subject to the following terms and conditions (the "Letter of Credit");

**WHEREAS**, the Letter of Credit will qualify as an Alternate Credit Facility under the Indenture;

**NOW, THEREFORE**, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I  
DEFINITIONS

All words and terms defined in Article I of the Loan Agreement shall have the same meanings in this Agreement, unless other-wise specifically defined herein. The terms defined in this Article I have, for all purposes of this Agreement, the meanings specified hereinabove or in this Article, unless defined elsewhere herein or the context clearly requires otherwise.

“Affiliate” means any person, corporation, association or other business entity which directly or indirectly controls, or is controlled by, or is under common control with the Borrower or the Guarantor.

“Agreement” shall mean this Letter of Credit, Reimbursement and Guaranty Agreement, as the same may from time to time be amended, modified or supplemented in accordance with the terms hereof.

“Alternate Credit Facility” means any irrevocable direct pay letter of credit, insurance policy or similar credit enhancement or support facility for the benefit of the Trustee, the terms of which Alternate Credit Facility shall in all respects material to the registered owners of the Bonds be the same (except for the term set forth in such Alternate Credit Facility) as those of the Letter of Credit.

“Bankruptcy Code” means 11 U.S.C. § 101 et seq., as amended.

“Bondholder” or “Bondholders” means the initial and any future registered owners of the Bond or Bonds as registered on the books and records of the Bond Registrar pursuant to Section 204 of the Indenture.

“Bond Documents” means, collectively, the Loan Agreement, the Note, the Remarketing Agreement, the Tender Agency Agreement, the Indenture, the Security Instruments and the Bonds, as the same may be amended, modified or supplemented from time to time in accordance with their respective terms.

“Borrower” means Leslie Controls, Inc., a New Jersey corporation.

“Capital Expenditures” means, for any period, expenditures (including, without limitation, the aggregate amount of Capital Lease Obligations incurred during such period) made by the Guarantor, the Borrower or any of their Subsidiaries to acquire or construct fixed assets, plant and equipment (including renewals, improvements and replacements, but excluding repairs) during such period computed in accordance with GAAP

“Capital Lease Obligations” of any Person shall mean all obligations of such Person to pay rent or other amounts under any lease (or other arrangement conveying the right to use) Property, to the extent such obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Cash and Cash Equivalents” means as to any Person at a particular date, the aggregate amount of all items categorized as cash and cash equivalents on the balance sheet of such Person, as determined in accordance with GAAP.

“Consistent Basis” means, in reference to the application of GAAP, that the accounting principles observed in the period referred to are comparable in all material respects to those applied in the preceding period, except as to any changes consented to by the Bank.

“Consolidated Net Income” means the consolidated gross revenues of the Guarantor and the Borrower and the Subsidiaries of each for such period less all expenses and other proper charges for such period (including taxes on or measured by income) determined in accordance with GAAP.

“Consolidated Net Worth” of the Guarantor and the Borrower and the Subsidiaries of each shall mean at any time as of which the amount thereof is to be determined, the sum of the Net Worth of such Persons.

“Consolidated Subsidiaries” means the Subsidiaries of the Guarantor included in the audited consolidated financial statements of the Guarantor from time to time. For purposes of the representation contained in Subsection 2.3 hereof.

“Consultant” means any third-party architect or engineer satisfactory to the Bank.

“Credit Agreement” means the Credit Agreement, dated as of October 18, 1999, among CIRCOR International, Inc., ING (U.S.) LLC as Agent, Bank Boston, N.A. as Syndication Agent and the Bank as Documentation Agent, as now or hereafter amended.

“Current Assets” means Cash and Cash Equivalents and all other assets or resources of a Person which are expected to be realized in cash, sold in the ordinary course of business, or consumed within one year, all determined in accordance with GAAP.

“Current Liabilities” means the amount of all liabilities of a Person which by their terms are payable within one year (including all indebtedness payable on demand or maturing not more than one year from the date of computation and the current portion of long-term debt), all determined in accordance with GAAP.

“Debt Service” means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all payments of principal of Indebtedness (including, without limitation, the principal component of any payments in respect of Capital Lease Obligations) scheduled to be made during such period plus (b) all Interest Expense for such period.

“Default” means an event or condition the occurrence of which would, with the lapse of time or the giving of notice, or both, become an Event of Default.

“Distribution” in respect of any corporation, means and includes: (i) the payment of any dividends or other distributions on capital stock of the corporation (except distributions in such stock) and (ii) the redemption or acquisition of its Securities unless made contemporaneously from the net proceeds of the sale of its Securities.

“EBITDA” shall mean, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following:

(a) Net Income (calculated before taxes, Interest Expense, Specified Restructuring Charges, extraordinary or unusual items and income or loss attributable to the equity in Affiliates) for such period, plus

(b) depreciation and amortization (to the extent deducted in determining Net Income) for such period.

“Environmental Laws” means all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidances, orders and consent decrees relating to health, safety and environmental matters, including, but not limited to, the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation and Liability Act of 1980; the Toxic Substances Control Act, as amended; the Clean Water Act; the River and Harbor Act; the Water Pollution Control Act; the Marine Protection Research and Sanctuaries Act; the Deep Water Port Act; the Safe Drinking Water Act; the Superfund Amendments and Reauthorization Act of 1986; the Federal Insecticide, Fungicide and Rodenticide Act; the Mineral Lands and Leasing Act; the Surface Mining Control and Reclamation Act; state and federal superlien and environmental cleanup programs and laws; and U.S. Department of Transportation regulations.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, including any rules and regulations promulgated thereunder.

“ERISA Affiliate” means a Person under common control with the Guarantor within the meaning of Section 414(c) of the Internal Revenue Code of 1986, as amended, or Section 4001(b) of ERISA.

“Event of Default” means an Event of Default as defined in Section 9.1 hereof.

“Expiration Date” means March 1, 2005, the stated expiration date of the Letter of Credit, as such date has been and may be extended in accordance with the terms of Section 4.10 hereof.

“Fixed Charges Coverage Ratio” means, as at any date, the ratio of (a) (x) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date minus (y) Capital Expenditures made during such period to (b) Debt Service for such period.

“GAAP” means those principles of accounting set forth in pronouncements of the Financial Accounting Standards Board and its predecessors or pronouncements of the American Institute of Certified Public Accountants or those principles of accounting which have other

substantial authoritative support and are applicable in the circumstances as of the date of application, as such principles are from time to time supplemented or amended. As to the provisions of this Agreement, the applicable GAAP shall be determined as set forth in the Credit Agreement.

“Guarantor” means CIRCOR International, Inc., a Delaware corporation.

“Hedging Agreements” shall mean interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts, commodity agreements and other similar agreements or arrangements designed to protect against fluctuations in interest rates, currency values or commodity values, in each case to which any Person is a party.

“Immaterial Subsidiary” means, as at any date, any Subsidiary of the Guarantor that the Guarantor shall theretofore have designated as an “Immaterial Subsidiary” in a notice to the Bank, provided that:

(a) the following shall be true:

(x) the aggregate assets of all such Subsidiaries (calculated both on a book value basis and a fair market value basis) does not exceed 10% of the aggregate assets (calculated on such respective bases) of the Guarantor and its Subsidiaries as of the most recent fiscal quarter-end of the Guarantor; and

(y) the aggregate EBITDA of all such Subsidiaries for the period of four consecutive fiscal quarters most recently ended prior to such date does not exceed 10% of the consolidated EBITDA of the Guarantor and its Subsidiaries for such period; and

(b) the Guarantor may from time to time, by notice to the Bank, cause any Subsidiary that it had theretofore designated as an “Immaterial Subsidiary” to be no longer treated as an “Immaterial Subsidiary”

“Indebtedness” means, for any Person: (a) obligations created, issued or incurred by such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of Property to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of Property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts payable are payable within 90 days of the date the respective goods are delivered or the respective services are rendered; (c) Indebtedness of others secured by a Lien on the Property of such Person, whether or not the respective indebtedness so secured has been assumed by such Person; (d) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by lenders and other financial institutions for account of such Person; (e) Capital Lease Obligations of such Person; and (f) Indebtedness of others Guaranteed by such Person.

“Interest Coverage Ratio” means, as at any date, the ratio of (a) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date to (b) Interest Expense for such period.

“Interest Expense” means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all interest in respect of Indebtedness (including, without limitation, the interest component of any payments in respect of Capital Lease Obligations) accrued or capitalized during such period (whether or not actually paid during such period) plus (b) the net amount payable (or minus the net amount receivable) under Interest Rate Protection Agreements during such period (whether or not actually paid or received during such period).

“Interest Rate Protection Agreement” means, for any Person, an interest rate swap, cap or collar agreement or similar arrangement between such Person and one or more financial institutions providing for the transfer of mitigation of interest risks either generally or under specific contingencies.

“Leverage Ratio” shall mean, as at any date, the ratio of the following: (a) the aggregate amount of Indebtedness of the Guarantor and its Subsidiaries outstanding on such date, to (b) EBITDA for the four consecutive fiscal quarters ended on or most recently prior to such date.

“Lien” means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and including, but not limited to, the security interest, security title or lien arising from a security agreement, mortgage, deed of trust, deed to secure debt, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. For the purpose of this Agreement, the Borrower or the Guarantor, respectively, shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

“Material Adverse Effect” means a material adverse effect on the business, operations or financial condition of the Guarantor and its Subsidiaries or if applicable, such other Person, taken as a whole.

“Money Borrowed” as applied to Indebtedness, means (i) Indebtedness for borrowed money; (ii) Indebtedness, whether or not in any such case the same was for borrowed money, (A) which is represented by notes payable or drafts accepted that evidence extensions of credit, (B) which constitutes obligations evidenced by bonds, debentures, notes or similar instruments, or (C) upon which interest charges are customarily paid (other than accounts payable) or that was issued or assumed as full or partial payment for Property; (iii) Indebtedness that constitutes a Capitalized Lease obligation; and (iv) Indebtedness under any guaranty of obligations that would constitute Indebtedness for Money Borrowed under clauses (i) through (iii) hereof.

“Net Income” means for any period, the net operating income of the Borrower, the Guarantor and their Subsidiaries for such period (determined on a consolidated basis in accordance with GAAP).

“Obligations” means all loans and all other advances, debts, liabilities, obligations, covenants and duties owing, arising, due or payable from the Borrower to the Bank of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, whether arising under this Agreement or any of the other Bond Documents or Security Instruments or otherwise, whether direct or indirect (including those acquired by assignment), absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorney’s fees and any other sums chargeable to the Borrower under any of the Bond Documents or Security Instruments.

“Officer’s Certificate” means the Certificate of the Chief Financial Officer or the Controller of the Borrower or the Guarantor, as the case shall be, as approved by the Bank.

“Other Agreements” means any and all agreements, instruments and documents (other than this Agreement and the Security Instruments), heretofore, now or hereafter executed by the Borrower or the Guarantor or the Subsidiaries of either or any of them and delivered to the Bank in respect to the transactions contemplated by this Agreement.

“Permitted Encumbrances” means and includes:

(a) liens for taxes and assessments not delinquent or which are being contested in good faith by appropriate proceedings and against which adequate reserves have been provided for on the books of the Guarantor or the Borrower, as applicable;

(b) worker’s, mechanic’s and materialmen’s liens and similar liens incurred in the ordinary course of business remaining undischarged or unstayed for not longer than 60 days following Borrower’s notice of the attachment thereof;

(c) attachments remaining undischarged or unstayed for not longer than 60 days from the making thereof;

(d) liens in respect of final judgments or awards remaining undischarged or unstayed for not longer than 60 days from the making thereof;

(e) liens in respect of pledges or deposits under worker’s compensation laws, liens to secure customs bonds, unemployment insurance or similar legislation and in respect of pledges or deposits to secure bids, tenders, contracts (other than contracts for the payment of money), leases or statutory obligations, or in connection with surety, appeal and similar bonds incidental to the conduct of litigation;

“Person” means an individual, partnership, corporation, trust, joint venture, unincorporated organization, association, or a government, or agency or political subdivision or instrumentality thereof.

“Plan” means a pension plan (other than a multiemployer pension plan as defined in Section 3(37) of ERISA) that is subject to Title IV of ERISA.

“Pledge Agreement” means the Pledge Agreement of even date herewith from the Borrower to the Bank.

“Prime Rate” means the interest rate publicly announced from time to time by the Bank to be its prime rate, which may not necessarily be its best lending rate. In the event the Bank shall abolish or abandon the practice of announcing its Prime Rate or should the same be unascertainable, the Bank shall designate a comparable reference rate which shall be deemed to be the Prime Rate under this Agreement.

“Prohibited Transaction” means any transaction set forth in Section 406 of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended from time to time.

“Project” means the manufacturing facility acquired, constructed and installed with the proceeds of the Prior Bonds, owned and operated by the Borrower in Hillsborough County, Florida.

“Property” means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

“Reportable Event” means any of the events set forth in Section 4043(b) of ERISA other than those events for which the obligation to notify the Pension Benefit Guaranty Corporation (“PBGC”) has been waived under 29 C.F.R. Part 2615.

“Security” means shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

“Security Instruments” means, collectively, the Pledge Agreement and any and all Other Agreements.

“Solvent” means as to any Person, such Person (i) owns Property whose fair saleable value is greater than the amount required to pay all of such Person’s Indebtedness (including contingent debts), (ii) is able to pay all of its Indebtedness as such Indebtedness matures and (iii) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage.

“Spin-off” means the Spin-off, effective October 18, 1999, by Watts Industries, Inc. of certain oil and gas related subsidiaries, including the Borrower, to the Guarantor.

“Subsidiary” or “Subsidiaries” means, as to any Person, any corporation whether organized and existing under the laws of any state of the United States, including the District of Columbia and Puerto Rico, or under the laws of any foreign country, of which more than 50% of voting stock at any time is owned or controlled directly or indirectly by the Borrower or the Guarantor, as applicable.

“Tangible Net Worth” shall mean, as at any date for any Person, the sum for such Person and its Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following:

- (a) the amount of capital stock, plus

(b) the amount of surplus and retained earnings (or, in the case of a surplus or retained earnings deficit, minus the amount of such deficit), minus

(c) the sum of the following (without duplication of deductions in respect of items already deducted in arriving at surplus and retained earnings): cost of treasury shares and the book value of all assets which should be classified as intangibles but in any event including goodwill, minority interests, research and development costs, trademarks, trade names, copyrights, patents and franchises, unamortized debt discount and expense, all reserves and any write-up in the book value of assets (other than a Permitted Write-up (as defined in the Credit Agreement)) resulting from a revaluation thereof subsequent to June 30, 2003.

“Tender Advance” has the meaning assigned to that term in Section 4.3 of this Agreement.

“Tender Draft” has the meaning assigned to that term in the Letter of Credit.

“Termination Date” means the last day a drawing is available under the Letter of Credit.

“Trustee” means any Person or group of Persons at the time serving as corporate fiduciary under the Indenture.

“Uniform Customs and Practice” shall mean the Uniform Customs and Practice for Documentary Credits, 1994 Revision, ICC Publication No. 500.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE GUARANTOR

The Guarantor represents and warrants to the Bank (which representations and warranties shall survive the delivery of the documents mentioned herein and the issuance of the Letter of Credit) that:

Section 2.1. Incorporation. Each of the Guarantor and its Consolidated Subsidiaries is a corporation, partnership or joint venture, respectively, duly organized, existing and in good standing under the laws of its respective jurisdiction, except where the failure to be in good standing would not have a Material Adverse Effect and has the corporate or other power to own its respective properties and to carry on its respective business as now or at such future time being conducted, and is duly qualified as a foreign corporation or otherwise to do business in every jurisdiction in which the failure to be so qualified would have a Material Adverse Effect. On the date of the execution and delivery of this Agreement, the Guarantor has the respective Consolidated Subsidiaries shown on Exhibit B hereto, and no other Subsidiaries.

Section 2.2. Power and Authority; No Conflicts; Enforceability. It is duly authorized under all applicable provisions of law to execute, deliver and perform this Agreement and the Other Agreements to which it is a party, and all corporate action on its part required for the lawful execution, delivery and performance hereof and thereof has been duly taken; and this Agreement and the Other Agreements to which it is a party, upon the due execution and delivery hereof, will be the valid, binding and legal obligation of the Guarantor enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and to general principles of equity. Neither the execution of this Agreement, nor the fulfillment of or compliance with the respective provisions and terms hereof, will (A) conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a violation of or default under any applicable law, regulation, judgment, writ, order or decree to which the Guarantor or any Consolidated Subsidiary or any of their respective properties are subject, or the charter or bylaws of the Guarantor or any Consolidated Subsidiary, or any agreement or instrument to which the Guarantor or any Consolidated Subsidiary is now a party and (B) create any lien, charge or encumbrance upon any of the property or assets of the Guarantor or any Consolidated Subsidiary pursuant to the terms of any agreement or instrument to which the Guarantor or any Subsidiary is a party or by which they, or any of them, or any of their respective properties, are bound except pursuant to the Security Instruments.

Section 2.3. Financial Condition. The consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries for the fiscal year ended as of December 31, 2002, and the fiscal quarters ended September 30, 2003, and December 31, 2003, and the related consolidated (pro forma) statements of operations, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity for the period, copies of which have been furnished to the Bank, are correct, complete and fairly present the financial condition of the Guarantor and its Consolidated Subsidiaries in all material respects as at the respective date of said balance sheets, and the results of its respective operations for each such period. The

Guarantor and its Consolidated Subsidiaries do not have any material direct or contingent liabilities as of the date of this Agreement which are not provided for or reflected in the balance sheets, dated January 31, 2004, or referred to in notes thereto, or set forth in Exhibit B hereto. There has been no material adverse change in the business, properties or condition, financial or otherwise, of the Guarantor and its Consolidated Subsidiaries since January 31, 2004.

Section 2.4. Title to Property and Assets. It has good and marketable title to its Property, including the properties and assets reflected in the financial statements and notes thereto described in Section 2.3 hereof, except for such assets as have been disposed of since the date of said financial statements in the ordinary course of business or as are no longer useful in the conduct of its business, and all such properties and assets are free and clear of all material Liens, mortgages, pledges, encumbrances or charges of any kind except Liens reflected in the financial statements or Exhibit B hereto or permitted under Section 7.2 hereof.

Section 2.5. Litigation. There are no pending or, to the best of its knowledge, threatened material actions, suits or proceedings before any court, arbitrator or governmental or administrative body or agency which may materially adversely affect the properties, business or condition, financial or otherwise, of the Guarantor and its Consolidated Subsidiaries on a consolidated basis, except as disclosed in the financial statements and notes thereto described in Section 2.3 hereof or Exhibit B hereto.

Section 2.6. Taxes. It has filed all material tax returns required to be filed by it and all material taxes due with respect thereto have been paid, and except as described in Exhibit B hereto, no controversy in respect of a material amount of additional taxes, state, federal or foreign, of the Guarantor is pending, or, to the knowledge of the Guarantor, threatened. No federal taxes have been due or are currently due to be paid by the Guarantor as of the date hereof, and adequate reserves have been established for the payment of all taxes (other than federal) for periods ended subsequent to June 30, 2000.

Section 2.7. Trademarks, Franchises and Licenses. It owns, possesses, or has the right to use all necessary material patents, licenses, franchises, trademarks, trademark rights, trade names, trade name rights and copyrights to conduct business as now conducted, without known conflict with any patent, license, franchise, trademark, trade name, or copyright of any other Persons.

Section 2.8. No Default. It is not in default in the performance, observance or fulfillment of any of its material obligations, covenants or conditions contained in any agreement or instrument to which it is a party or by which it may be bound, the effect of which default would allow any Person to cause such obligation under the agreement or instrument to become due prior to its stated maturity.

Section 2.9. Governmental Authority. It has received the written approval of all federal, state, local and foreign governmental authorities, if any, necessary to carry out the terms of this Agreement, and no further governmental consents or approvals are required in the making or performance of this Agreement by it.

Section 2.10. ERISA. It has not incurred any material liability to the PBGC established under ERISA (or any successor thereto under ERISA) in connection with any Plan established or maintained by it or by any Person under common control with it (within the meaning of Section 414(c) of the Internal Revenue Code of 1986, as amended (the "Code"), or of Section 4001(b) of ERISA), or in which its employees are entitled to participate. No such Plan has incurred any material accumulated funding deficiency within the meaning of ERISA. No Reportable Event in connection with any such Plan has occurred or is continuing.

Section 2.11. Pollution and Environmental Control: Hazardous Substances. It has obtained all permits, licenses and other authorizations which are required under any Environmental Law, except to the extent that failure to have obtained any such permit, license or authorization will not have a Material Adverse Effect, and is in material compliance with, all federal, state, and local Environmental Laws and regulations relating, without limitation, to pollution, reclamation or protection of the environment, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous or toxic materials or wastes into air, water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants or hazardous or toxic substances, materials or wastes the failure to comply with which would have a Material Adverse Effect. Neither any Guarantor, nor to Guarantor's knowledge any previous owner of the Project Site, has disposed of any hazardous substances on any portion of the Project Site. As used in this subparagraph, "hazardous substances" shall have the meaning set forth in the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 6901, et. seq., and the regulations adopted pursuant to such act.

Section 2.12. Capital Structure. Exhibit B attached hereto and made a part hereof states the correct name of each of the Consolidated Subsidiaries of the Guarantor, the jurisdiction of organization or incorporation and the percentage of its voting stock owned by the Guarantor. The Guarantor has good title to all of the shares it purports to own of the stock of each Consolidated Subsidiary, free and clear in each case of any Lien other than Permitted Liens. All such shares have been duly issued and are fully paid and non-assessable.

Section 2.13. Solvent Financial Condition. It is now, and after giving effect to the transactions contemplated hereby, will be Solvent.

Section 2.14. Restrictions. It is not a party or subject to any contract, agreement, or charter or other corporate restriction, which Guarantor believes materially and adversely affects its business or the use or ownership of any of its Properties. The Guarantor is not a party or subject to any contract or agreement which restricts its right or ability to incur Indebtedness, other than as set forth on Exhibit B attached hereto, none of which prohibit the execution of or compliance with this Agreement by the Guarantor.

Section 2.15. Full Disclosure. The Financial Statements referred to in Section 2.3 above, do not, nor does this Agreement or the Bond Documents or any Other Agreement or written statement of the Guarantor to the Bank (including, without limitation, the Guarantor's filings, if any, with the Securities and Exchange Commission), taken as a whole, contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained therein or herein not misleading. There is no fact which the Guarantor has failed to

disclose to the Bank in writing which materially affects adversely or, so far as the Guarantor can now foresee, will materially affect adversely the Properties, business, prospects, profits, or condition (financial or otherwise) of the Guarantor or any of its Consolidated Subsidiaries or the ability of the Guarantor or the Borrower to perform this Agreement or the Bond Documents.

Section 2.16. Labor Relations. Except as described on Exhibit B attached hereto and made a part hereof, there are no material grievances, disputes or controversies with any union or any other organization of the Guarantor's employees, or threats of strikes, work stoppages or any asserted pending demands for collective bargaining by any union or organization which could have a Material Adverse Effect.

Section 2.17. Compliance With Laws. It has duly complied in all material respects with, and its Properties, business operations and leaseholds are in compliance in all material respects with, the provisions of all federal; state and local laws, rules and regulations applicable to the Guarantor, its Properties or the conduct of its business, including, without limitation, OSHA and all Environmental Laws, the failure to comply with which would have a Material Adverse Effect.

Section 2.18. Brokers. There are no claims for brokerage commissions, finder's fees or investment banking fees in connection with the transactions contemplated by this Agreement, except for fees owed to the Bank and its affiliates.

Section 2.19. Trade Relations. There exists no actual or threatened termination, cancellation or limitation of, or any modification or change in, the business relationship between the Guarantor and any customer or any group of customers whose purchases individually or in the aggregate are material to the business of the Guarantor, or with any material supplier, and there exists no present condition or state of facts or circumstances which would materially affect adversely the Guarantor or prevent the Guarantor from conducting such business after the consummation of the transaction contemplated by this Agreement in substantially the same manner in which it has heretofore been conducted.

Section 2.20. Investment Company Act. The Guarantor is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

Section 2.21. Survival of Representations and Warranties. It covenants, warrants and represents to the Bank that all representations and warranties of the Guarantor contained in this Agreement or any of the Bond Documents or Other Agreements shall be true at the time of its execution of this Agreement and, the Bond Documents or Other Agreements, and shall survive the execution, delivery and acceptance thereof by the Bank and the parties thereto and the closing of the transactions described therein or related thereto.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower represents and warrants to the Bank (which representations and warranties shall survive the delivery of the documents mentioned herein and the issuance of the Letter of Credit) as of the date of the issuance of the Letter of Credit that:

Section 3.1. Incorporation. It is a corporation duly incorporated, existing and in good standing under the laws of the State of its incorporation, and has the corporate or other power to own its Property and to carry on its business as now being conducted.

Section 3.2. Power and Authority. It is duly authorized under all applicable provisions of law to execute, deliver and perform this Agreement and the Bond Documents, and all action, corporate or otherwise, as applicable, on its part required for the lawful execution, delivery and performance hereof has been duly taken; and this Agreement and the Bond Documents, upon the due execution and delivery hereof, will be its valid and binding obligation enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and to general principles of equity. Neither the execution of this Agreement nor the Bond Documents, nor the fulfillment of or compliance with their respective provisions and terms, will (a) conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a violation of or default under any applicable law, regulation, judgment, writ, order or decree to which it or any of its properties is subject, or its charter or by-laws, or any agreement or instrument to which it or any of its Subsidiaries is now a party or by which it or any of its Subsidiaries or any of their respective properties is bound or affected, or (b) create any lien, charge or encumbrance upon any of its or any of its Subsidiaries' property or assets pursuant to the terms of any agreement or instrument to which it or any of its Subsidiaries is a party or by which it or any of its Subsidiaries or any of their respective properties is bound except pursuant to the Security Instruments.

Section 3.3. Governmental Authority. It has received the written approval of all federal, state, local and foreign governmental authorities, if any, necessary to carry out the terms of this Agreement, and no further governmental consents or approvals are required in the making or performance of this Agreement and the Bond Documents.

Section 3.4. Project Site. The operation of the Project complies in all material respects with presently existing zoning and other land use restrictions affecting the Project Site, including without limitation, any restrictive covenants.

Section 3.5. Survival of Representations and Warranties. It covenants, warrants and represents to the Bank that all representations and warranties contained in this Agreement are true at the time of its execution of this Agreement and the representations contained in the Bond Documents or Other Agreements were true at the time made and are true at the time of execution of this Agreement except to the extent of changes resulting from transactions contemplated or permitted by this Agreement (including the Spin-Off) and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse and to the extent that such representations and warranties relate expressly to an earlier date, and all of such representations and warranties shall survive the execution, delivery and acceptance thereof by the Bank and the parties thereto and the closing of the transactions described therein or related thereto.

ARTICLE IV

TERMS OF LETTER OF CREDIT, REIMBURSEMENT, OTHER PAYMENTS AND GUARANTY

Section 4.1. Letter of Credit. The Bank agrees, on the terms and conditions hereinafter set forth, to issue and deliver the Letter of Credit in favor of the Trustee in substantially the form of Exhibit A attached hereto upon fulfillment of the applicable conditions set forth in Article VIII hereof. The Bank agrees that any and all payments under the Letter of Credit will be made with the Bank's own funds.

Section 4.2. Reimbursement and Other Payments. The Borrower shall pay to the Bank:

(a) on or before 3:00 P.M. (Eastern time), but after the honoring of a draw by the Bank, on the date that any amount is drawn under the Letter of Credit, a sum equal to such amount so drawn under the Letter of Credit;

(b) on demand, interest on any and all amounts remaining unpaid by the Borrower when due hereunder from the date such amounts become due until payment thereof in full, at a fluctuating interest rate per annum equal at all times to the lesser of (i) the Prime Rate plus two percent (2%) or (ii) the highest lawful rate permitted by applicable law;

(c) on demand, any and all reasonable expenses incurred by the Bank in enforcing any rights under this Agreement and the Bond Documents; and

(d) on demand all charges, commissions, costs and expenses set forth in Sections 4.4, 4.5 and 4.9 hereof.

Section 4.3. Tender Advances. (a) If the Bank shall make any payment of that portion of the purchase price corresponding to principal and interest of the Bonds drawn under the Letter of Credit pursuant to a Tender Draft and the conditions set forth in Section 8.3 all have been fulfilled, such payment shall constitute a tender advance made by the Bank to the Borrower on the date and in the amount of such payment (a "Tender Advance"); provided that if the conditions of said Section 8.3 have not been fulfilled, the amount so drawn pursuant to the Tender Draft shall be payable in accordance with the terms of Section 4.2(a) above. Notwithstanding any other provision hereof, the Borrower shall repay the unpaid amount of each Tender Advance, together with all unpaid interest thereon on the earlier to occur of (i) such date as Bonds purchased pursuant to a Tender Draft are resold as provided in paragraph 4.3(d) hereof, (ii) on the date 366 days following the date of such Tender Advance, or (iii) the Termination Date.

The Borrower may prepay the outstanding amount of any Tender Advance in whole or in part, together with accrued interest to the date of such prepayment on the date such amount is prepaid. The Borrower shall notify the Bank, prior to 11:00 A.M. (Eastern time), on the date of such prepayment of the amount to be prepaid.

(b) The Borrower shall pay interest on the unpaid amount of each Tender Advance from the date of such Tender Advance until such amount is paid in full, payable monthly, in arrears, on the first day of each month during the term of each Tender Advance and on the date such amount is paid in full, at a fluctuating interest rate per annum in effect from time to time equal to the Prime Rate, provided that the unpaid amount of any Tender Advance, which is not paid when due shall bear interest at the lesser of the Prime Rate plus two percent (2%) or the highest rate permitted by applicable law, payable on demand and on the date such amount is paid in full.

(c) Pursuant to the Pledge Agreement the Borrower has agreed that, in accordance with the terms of the Indenture, Bonds purchased with proceeds of any Tender Draft shall be delivered by the Tender Agent to the Bank or its designee to be held by the Bank or its designee in pledge as collateral securing the Borrower's payment obligations to the Bank hereunder. Bonds so delivered to the Bank or its designee shall be registered in the name of the Bank, or its designee, as pledgee of the Borrower, as provided for in Section 3 of the Pledge Agreement.

(d) Prior to or simultaneously with the resale of Pledged Bonds, the Borrower shall prepay or cause the Tender Agent to prepay as provided below the then outstanding Tender Advances (in the order in which they were made) by paying to the Bank an amount equal to the sum of (a) the amounts advanced by the Bank pursuant to the corresponding Tender Drafts relating to such Bonds, plus (b) the aggregate amount of accrued and unpaid interest on such Tender Advances. Such payment shall be applied by the Bank in reimbursement of such drawings (and as prepayment of Tender Advances resulting from such drawings in the manner described below), and, upon receipt by the Bank of a certificate completed and signed by the Trustee in substantially the form of Annex F to the Letter of Credit, the Borrower irrevocably authorizes the Bank to rely on such certificate and to reinstate the Letter of Credit in accordance therewith. Funds held by the Tender Agent as a result of sales of the Pledged Bonds by the Remarketing Agent shall be paid to the Bank by the Tender Agent to be applied to the amounts owing by the Borrower to the Bank pursuant to this paragraph (d). Upon payment to the Bank of the amount of such Tender Advance to be prepaid, together with accrued interest on such Tender Advance to the date of such prepayment on the amount to be prepaid, the principal amount outstanding of Tender Advances shall be reduced by the amount of such prepayment and interest shall cease to accrue on the amount prepaid.

Section 4.4. Commission and Fee. (a) The Borrower hereby agrees to pay to the Bank a non-refundable letter of credit fee for the period from and including the date of issuance until the Termination Date, computed at the rate of one and one-eighth percent (1.125%) per annum, calculated as a percentage of the stated amount of the Letter of Credit (as the same may be reduced from time to time but including, in any event, the principal amount of any Pledged Bonds) on the date of payment of such letter of credit fee. Amounts payable under this section shall be payable in advance, based on a 360-day year, actual number of days elapsed, in immediately available funds, on the date of issuance and quarterly thereafter on the first day of each March 1, June 1, September 1, and December 1.

(b) The Borrower shall pay to the Bank, upon each drawing under the Letter of Credit in accordance with its terms, a fee of \$150 per drawing.

(c) The Borrower shall pay to the Bank, upon transfer of the Letter of Credit in accordance with its terms, a transfer fee of \$1,000.

Section 4.5. Increased Costs. In the event of any change in any existing or future law, regulation, ruling or interpretation thereof affecting the Bank which shall either (a) impose, modify or make applicable any reserve, special deposit, capital requirement, assessment or similar requirement against the Letter of Credit or (b) impose on the Bank any other condition regarding the Letter of Credit, and the result of any event referred to in clause (a) or (b) above shall be to increase the cost (including a reasonable allocation of resources) or decrease the yield to the Bank of issuing or maintaining the Letter of Credit (which increase in cost shall be the result of the Bank's reasonable allocation of the aggregate of such cost increases or yield decreases resulting from such events), then, upon demand by the Bank, the Borrower shall immediately pay to the Bank, from time to time as specified by the Bank, additional amounts which shall be sufficient to compensate the Bank for such increased cost or decreased yield. A statement of charges submitted by the Bank, shall be conclusive, absent manifest error, as to the amount owed.

Section 4.6. Computation. All payments of interest, commission and other charges under this Agreement shall be computed on the per annum basis, based upon a year of 365 (or 366, as the case may be) days, and calculated for the actual number of days elapsed.

Section 4.7. Parent Procedure. All payments made by the Borrower under this Agreement shall be made to the Bank in lawful currency of the United States of America and in immediately available funds at the Bank's offices described at the beginning of this Agreement before 12:00 Noon, EST on the date when due, except for payments made in accordance with the terms of Section 4.2(a).

Section 4.8. Business Days. If the date for any payment hereunder falls on a day which is not a Business Day, then for all purposes of this Agreement the same shall be deemed to have fallen on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payments of interest or commission, as the case may be.

Section 4.9. Reimbursement of Expenses. The Borrower will pay all reasonable legal fees (computed without regard to any statutory presumption) incurred by the Bank in connection with the preparation, execution and delivery of this Agreement, the Letter of Credit, the Bond Documents, and all transactions contemplated hereby and thereby (including any amendments hereto or thereto or consents or waivers hereunder or thereunder) and will also pay all fees, charges or taxes for the recording or filing of Security Instruments. The Borrower will also pay for all reasonable legal expenses of the Bank in connection with the administration of the Letter of Credit, this Agreement and the Bond Documents. The Borrower will, upon request, promptly reimburse the Bank for all amounts expended, advanced or incurred by the Bank to collect or satisfy any obligation of the Borrower under this Agreement or any of the Bond Documents, or to enforce the rights of the Bank under this Agreement or any of the Bond Documents, which amounts will include, without limitation, all court costs, reasonable attorneys' fees, fees of auditors and accountants and investigation expenses incurred by the Bank in connection with any such matters.

Section 4.10. Expiration Date. The Letter of Credit will expire on its stated Expiration Date, unless the Bank notifies the Borrower in writing at least 120 days prior to the Expiration Date that the Bank will extend such applicable Expiration Date for an additional one-year period from the then applicable Expiration Date.

Section 4.11. Guaranty. (a) the Guarantor hereby absolutely and unconditionally guarantees, the full and timely payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Borrower now or hereafter existing under this Agreement or any of the Security Instruments, whether for principal, interest, fees, expenses or otherwise. The Guarantor further agrees to pay any and all expenses (including without limitation reasonable attorneys' fees and expenses) incurred by the Bank in enforcing or protecting its rights against the Guarantor under this Agreement or any of the Security Instruments.

(b) This is a guaranty of payment and not of collection, and the Guarantor expressly waives any right to require that any action be brought against the Borrower or any other guarantor or to require that resort be had to any security, whether held by or available to the Bank or to any other guaranty. If the Borrower shall default in payment of the principal, interest, or fees on or any other amount payable hereunder when and as the same shall become due, whether by acceleration, call for prepayment, or otherwise, or upon the occurrence of any other Event of Default hereunder, the Guarantor, upon demand by the Bank or its successors or assigns, will promptly and fully make such payments. All payments by the Guarantor shall be made in immediately available coin or currency of the United States of America which on the respective dates of payment thereof is legal tender for the payment of public and private debts. Each default in payment of the principal, interest, fees or any other amount payable hereunder, or the occurrence of any other Event of Default hereunder, shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises. The Bank, or its successors or assigns, in its sole discretion, shall have the right to proceed first and directly against the Guarantor and its successors and assigns.

(c) The Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the obligations of the Borrower under this Agreement or any requirement that the Bank protect, secure, perfect or insure any security interest or lien or any property subject hereto or to the Security Instruments or exhaust any right or take any action against the Borrower or any other Person.

(d) The Guarantor will not exercise any rights that it may acquire by way of subrogation under this Agreement, by any payment made hereunder or otherwise, until all the obligations of the Borrower shall have been paid or performed in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the obligations of the Borrower hereunder shall not have been paid or performed in full, such amount shall be held in trust for the benefit of the Bank and shall forthwith be paid to the Bank to be credited and applied upon the obligations of the Borrower hereunder, whether matured or unmatured, in accordance with the terms hereof.

(e) This guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the obligations of the Borrower hereunder is rescinded or is

otherwise returned by the Bank upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

Section 4.12. Obligations Absolute. The obligations of each of the Borrower and the Guarantor under this Agreement shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of the Letter of Credit, the Bonds, any of the other Bond Documents, any of the Security Instruments or any other agreement or instrument related thereto;
- (b) any amendment or waiver of or any consent to departure from the terms of the Letter of Credit, the Bonds, any of the other Bond Documents, any of the Security Instruments or any other agreement or instrument related thereto;
- (c) the existence of any claim, setoff, defense or other right which any of the Borrower, the Guarantor or the Issuer may have at any time against the Trustee, any beneficiary or any transferee of the Letter of Credit (or any Person for whom the Trustee, any such beneficiary or any such transferee may be acting), the Bank or any other Person, whether in connection with this Agreement, the other Security Instruments, the Letter of Credit, the Bond Documents, the Project or any unrelated transaction;
- (d) any statement, draft or other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect, or any statement therein being untrue or inaccurate in any respect whatsoever;
- (e) the surrender, exchange or impairment of any security for the performance or observance of any of the terms of this Agreement; or
- (f) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower or a Guarantor, except subject to the qualification that obligations may be reinstated upon bankruptcy, notwithstanding payment in full of the Borrower's obligations to the Bank.

Notwithstanding the absolute obligations of the Borrower and the Guarantor as provided above, the Bank shall be liable to the Borrower and the Guarantor as provided in Section 10.4 hereof.

Section 4.13. Waiver of Guarantor's Claims. The Guarantor hereby waives to the fullest extent possible as and against the Borrower and its assets any and all rights, whether at law, in equity, by agreement or otherwise, to subrogation, indemnity, reimbursement, contribution, or any other similar claim, cause of action or remedy that otherwise would arise out of the Guarantor's performance of its obligations to the Bank under this Agreement. The preceding waiver is intended by both the Guarantor and the Bank to be for the benefit of the Borrower, and the waiver, until the obligations are satisfied in full and the Bank has no further liability under this Agreement or the Letter of Credit, shall be enforceable by the Borrower or any of its successors or assigns as an absolute defense to any action by the Guarantor against the Borrower or its assets which arises out of the Guarantor's having made any payment to the Bank with respect to any of the Borrower's liabilities guaranteed hereunder.

ARTICLE V  
SECURITY; INSURANCE

Section 5.1. Security. As security for the full and timely payment and performance by the Borrower and the Guarantor of their respective obligations hereunder, the Borrower shall on the date hereof deliver the Pledge Agreement to the Bank.

Section 5.2. Casualty and Liability Insurance Required. The Borrower will keep the Project and its Properties continuously insured against such risks as are customarily insured against by businesses of like size and type engaged in the same or similar operations (other than business interruption insurance) including, without limiting the generality of any other covenant contained herein or in the Bond Documents, casualty insurance and general comprehensive liability insurance against claims for bodily injury, death or property damage; provided, however, that the insurance so required may be provided by blanket policies now or hereafter maintained by the Borrower or the Guarantor.

Section 5.3. Notice of Casualty or Taking. In case of any material damage to or destruction of all or any part of the Project, the Borrower shall give prompt notice thereof to the Bank. In case of a taking or proposed taking of all or any material part of the Project or any right therein by Eminent Domain, the Borrower shall give prompt notice thereof to the Bank. Each such notice shall describe generally the nature and extent of such damage, destruction, taking, loss, proceeding or negotiations.

## ARTICLE VI

### AFFIRMATIVE COVENANTS

Until all the Obligations to be performed and paid shall have been performed and paid in full, and for so long as the Letter of Credit shall be outstanding, unless the Bank shall otherwise consent in writing, the Borrower and the Guarantor will perform and observe all covenants and agreements contained on its respective part in this Article VI.

#### Section 6.1. Financial Reports and Other Data and Information.

(a) Quarterly Statements. Within forty-five (45) days after the end of each fiscal quarter, a balance sheet of the Guarantor and its Consolidated Subsidiaries at the end of that period and an income statement for that period and for the portion of the fiscal year ending with such period on a consolidated and consolidating basis, setting forth in comparative form the figures for the same period of the preceding fiscal year, and certified by the Chief Financial Officer or Controller of the Guarantor as complete and correct in all material respects and prepared in accordance with GAAP, except without footnotes and subject to normal year-end audit adjustments.

(b) Annual Statements. Within ninety (90) days after the end of each fiscal year, a detailed audited financial report of the Guarantor and its Consolidated Subsidiaries on a consolidated and consolidating basis, containing a balance sheet at the end of that period and an income statement and statement of cash flows for that period, setting forth in comparative form the figures for the preceding fiscal year, and containing an unqualified opinion of independent certified public accountants acceptable to the Bank that the financial statements were prepared in accordance with GAAP, and that the examination in connection with the financial statements was made in accordance with generally accepted auditing standards and accordingly included tests of the accounting records and other auditing procedures that were considered necessary in the circumstances.

(c) SEC and Other Reports: Orders, Judgments, Etc. Promptly upon its becoming available, one copy of each regular or periodic report, registration statement or prospectus filed by the Guarantor with any securities exchange or the Securities and Exchange Commission or any successor agency, and of any material order, judgment, decree, decision or ruling issued by any governmental authority in any proceeding to which the Guarantor is a party;

(d) Accountants' Statements. Within the period provided in paragraph (b) above, a letter of the accountants who render the opinion on the financial statements, stating that they reviewed this Agreement and that in performing the examination necessary to render an opinion on the annual financial statements they obtained no knowledge of any such Default or Event of Default resulting from the Guarantor's failure to observe the financial ratios under Sections 7.5 through 7.8, or, if the accountants have knowledge of a Default or Event of Default, a statement specifying to

the best of their knowledge the nature and period of existence of the Default or Event of Default;

(e) Certificates. At the time of the delivery of the financial statements provided for in Section 6.1(a) and (b), an Officers' Certificate of the Guarantor to the effect that to the best of his knowledge, no Default or Event of Default has occurred and is continuing;

(f) Notice of Default or Litigation. Promptly, and in any event within three Business Days after the Chief Financial Officer or Controller of the Guarantor obtains knowledge thereof, notice of (1) the occurrence of any event which constitutes a Default or Event of Default, (2) any litigation or governmental proceeding pending against the Guarantor which is likely to materially and adversely affect the business, operations, property, assets, condition (financial or otherwise) or prospects of the Guarantor and its Subsidiaries on a consolidated basis;

(g) Environmental Matters. Promptly upon obtaining knowledge thereof, notice of any facts or circumstances known to the Borrower that the Guarantor reasonably believes is likely to form the basis for the assertion of any material claim against the Guarantor relating to environmental matters including, but not limited to, any claim arising from past or present environmental practices asserted under CERCLA, RCRA, or any other federal, state or local environmental statute;

(h) Other Information. From time to time, such other information or documents (financial or otherwise) as the Bank may reasonably request.

Section 6.2. Books, Records and Inspections. The Borrower and the Guarantor will keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of law shall be made of all dealings and transactions in relation to their businesses and activities. The Borrower and the Guarantor will permit officers and designated representatives of the Bank to visit and inspect, under guidance of officers of the Borrower and the Guarantor as applicable, any of the properties of the Borrower and the Guarantor and to examine the books of account of the Borrower and the Guarantor and discuss the affairs, finances and accounts of the Borrower and the Guarantor with, and be advised as to the same by, its and their officers, as applicable, all at such reasonable times and intervals and to such reasonable extent as the Bank may request.

Section 6.3. Maintenance of Property, Insurance. Exhibit D sets forth a true and complete listing of all material insurance maintained by the Guarantor and the Borrower as of the date hereof, with the amounts insured on the date hereof set forth therein. Each of the Borrower and the Guarantor shall (i) keep all property useful and necessary in their business in good working order and condition, except for property which has become obsolete or is no longer useful, (ii) maintain with financially sound and reputable insurance companies insurance which provides substantially the same (or greater) coverage and, as to the Borrower, against at least such risks as are described in Exhibit D, and (iii) furnish to the Bank, upon written request, full information as to the insurance carried.

Section 6.4. Corporate Franchises. The Borrower and the Guarantor will do or cause to be done, all things necessary to preserve and keep in full force and effect their existence and their material rights, franchises, licenses and patents; provided, however, that nothing in this Section 6.4 shall prevent the withdrawal by the Borrower or the Guarantor of any qualification as a foreign corporation in any jurisdiction where such withdrawal could not have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower or the Guarantor and nothing in this Section 6.4 shall prevent the merger of the Borrower into the Guarantor or into a Consolidated Subsidiary of the Guarantor.

Section 6.5. Compliance with Statutes, etc. The Borrower and the Guarantor will comply with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of their businesses and their ownership of property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls), except such noncompliance as could not, in the aggregate, have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower and the Guarantor or of the Borrower and the Guarantor taken as a whole.

Section 6.6. ERISA. As soon as possible and in any event within 10 days after the Borrower or the Guarantor knows that a Reportable Event has occurred with respect to a Plan established or maintained by the Borrower, the Guarantor or any ERISA Affiliate, that a material accumulated funding deficiency has been incurred or an application is to be or has been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standard (including any required installment payments) or an extension of any amortization period under Section 412 of the Code with respect to such a Plan, that a Plan has been or will be terminated, reorganized, petitioned or declared insolvent under Title IV of ERISA in a manner that has a Material Adverse Effect, that such a Plan has an Unfunded Current Liability within the meaning of Title IV of ERISA giving rise to a lien under ERISA, that proceedings will be or have been instituted to terminate such a Plan under circumstances that will have a Material Adverse Effect, or that the Borrower or the Guarantor or an ERISA Affiliate will incur any material liability to or on account of such a Plan under Section 4062, 4063 or 4064, or which is a multiemployer plan under Section 515, 4201 or 4203 of ERISA, the Borrower and the Guarantor will deliver to the Bank a certificate of a financial officer thereof, setting forth details as to such occurrence and action, if any, which the Borrower, the Guarantor or ERISA Affiliate is required or proposes to take, together with any notices required or proposed to be given to or filed with or by the Borrower, the Guarantor, the ERISA Affiliate, the PBGC, a Plan participant or the Plan administrator with respect thereto. The Borrower and the Guarantor will deliver to the Bank a complete copy of the annual report (Form 5500) of each Plan required to be filed with the Internal Revenue Service or the PBGC, given to Plan participants or received by either the Borrower or the Guarantor.

Section 6.7. Performance of Obligations. The Borrower and the Guarantor will perform all of their obligations under the terms of each mortgage, indenture, security agreement and other agreement by which they are bound, except such non-performances as could not in the aggregate, have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower and the Guarantor or of the Borrower and the Guarantor taken as a whole.

Section 6.8. Taxes and Liens. The Borrower and the Guarantor will promptly pay, or cause to be paid, all material taxes, assessments or other governmental charges which may lawfully be levied or assessed upon the income or profits of Borrower or the Guarantor or upon any Property, real, personal or mixed, belonging to Borrower or the Guarantor, or upon any part thereof, and also any lawful claims for labor, material and supplies which, if unpaid, might become a lien or charge against any such property; provided, however, neither Borrower nor the Guarantor shall be required to pay any such tax, assessment, charge, levy or claim so long as the validity thereof shall be actively contested in good faith by proper proceedings and, against which the Borrower or the Guarantor, as the case may be, shall have established reserves which are in amounts satisfactory to the Borrower's or the Guarantor's, as the case may be, independent certified public accountants.

Section 6.9. Payment of Obligations. The Borrower and the Guarantor will pay, when due, all its material obligations and liabilities, except where the same (other than Indebtedness) are being contested in good faith by appropriate proceedings diligently prosecuted and appropriate reserves for the accrual of same are maintained and, in the case of judgments, enforcement thereof has been stayed pending such contest.

Section 6.10. Environmental Matters. The Borrower and the Guarantor will obtain and maintain all licenses, permits, and approvals required in connection with the Project with respect to Hazardous Materials (which shall mean all materials defined as "hazardous substances," "hazardous waste" or "solid waste" in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Resource Conservation and Recovery Act or any similar environmental statute) and the Borrower or the Guarantor, as applicable, will remain in full compliance with such licenses, permits and approvals, except to the extent that failure to so comply would not have a Material Adverse Effect. The Borrower and the Guarantor will give the Bank copies of any citations, orders, notices or other communications received with respect to violations or alleged violations of any environmental laws in connection with the Project if such violation or alleged violation is likely to have a Material Adverse Effect. The Borrower and the Guarantor shall indemnify and hold the Bank and its directors, officers, shareholders and employees harmless from and against any and all damages, penalties, fines, claims, liens, suits, liabilities, costs (including clean-up costs) judgments and expenses (including attorneys', consultants' or experts' fees and expenses) of every kind and nature suffered by or asserted against the Bank as a direct or indirect result of any warranty or representation made by the Borrower and the Guarantor in this Section 6.10 being false or untrue in any material respect or any requirement under any environmental law, which requires the elimination or removal of any Hazardous Materials at the Project Site by the Bank, the Borrower, the Guarantor or any transferee of the Borrower, the Guarantor or the Bank, except to the extent that any such damages, penalties, fines, claims, liens, suits, liabilities, costs, judgments, or expenses result directly or indirectly from the actions of the Bank or any of its directors, officers, shareholders or employees.

ARTICLE VII  
NEGATIVE COVENANTS

Until all the Obligations to be performed and paid shall have been performed and paid in full, and for so long as the Letter of Credit shall be outstanding, unless the Bank shall otherwise consent in writing, the Borrower and the Guarantor covenant and agree as follows:

Section 7.1. Negative Pledge; Liens. The Borrower and the Guarantor will not create, incur, assume or suffer to exist any Lien upon or with respect to any property or assets (real or personal, tangible or intangible) constituting the Project or sell any such property or assets subject to an understanding or agreement, contingent or otherwise, to repurchase such property or assets (including sales of accounts receivable with recourse to the Borrower or the Guarantor), or assign any right to receive income or permit the filing of any financing statement under the Uniform Commercial Code of any state or any other similar notice of Lien under any similar recording or notice statute; provided that the provisions of this Section 7.1 shall not prevent the creation, incurrence, assumption or existence of:

- (i) Liens in favor of the Bank;
- (ii) Liens for taxes not yet due, or Liens for taxes being contested in good faith and by appropriate proceedings for which adequate reserves have been established;
- (iii) Except as hereinafter set forth, Liens in respect of property or assets of the Borrower or the Guarantor imposed by law, which were incurred in the ordinary course of business, such as carriers', warehousemen's and mechanics' liens and other similar Liens arising in the ordinary course of business, not to exceed \$10,000,000 as to the Borrower, the Guarantor or their subsidiaries in the aggregate, and (x) which do not in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of the Borrower or the Guarantor or (y) which are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien;
- (iv) Liens in existence on the date hereof which are listed, and the property subject thereto described in Exhibit C, with an indication therein that such Liens are "Permitted Liens" hereunder, provided that if in Exhibit C any Lien is listed as being a Permitted Lien only for a designated time period, such Lien shall cease to be a Permitted Lien after the expiration of such time period;
- (v) Permitted Encumbrances;
- (vi) Liens created pursuant to the Security Instruments;
- (vii) Utility deposits and pledges or deposits in connection with worker's compensation, unemployment insurance and other social security legislation; and

(viii) Liens permitted under the Credit Agreement.

Section 7.2. Consolidation or Merger. The Guarantor will not enter into any transaction of merger or consolidation, except for mergers in which the Guarantor is the surviving entity.

Section 7.3. Sale of Assets, Dissolution, Etc. The Guarantor will not, nor will it permit any of its Subsidiaries to, enter into any transaction in violation of Section 9.05(c) of the Credit Agreement, as amended from time to time.

Section 7.4. Indebtedness, Loans and Investments. The Guarantor shall not, nor will it permit any of its Subsidiaries to, enter into any transaction in violation of Sections 9.07 and 9.08 of the Credit Agreement, as amended from time to time.

Section 7.5. Leverage Ratio. The Guarantor will maintain, as of the end of each fiscal quarter of the Guarantor, commencing with the fiscal quarter ending December 30, 2003, a Leverage Ratio of not greater than 3.0 to 1.0.

Section 7.6. Interest Coverage Ratio. The Guarantor will have, as of the end of each fiscal quarter of the Guarantor, commencing with the fiscal quarter ending December 30, 2003, an Interest Coverage Ratio of not less than 2.5 to 1.0.

Section 7.7. Fixed Charges Coverage Ratio. The Guarantor will not permit the Fixed Charges Coverage Ratio as of the last day of any fiscal quarter of the Guarantor to be less than 1.4 to 1.0.

Section 7.8. Tangible Net Worth. The Guarantor will not permit Tangible Net Worth to be less than \$128,145,000 at June 30, 2003, or such higher amount as hereinafter set forth. The Tangible Net Worth of the Guarantor shall increase quarterly, beginning with the fiscal quarter ended June 30, 2003, by an amount equal to 50% of the Consolidated Net Income (if positive) of the Guarantor for such fiscal quarter.

ARTICLE VIII

CONDITIONS TO ISSUANCE OF LETTER OF CREDIT

Section 8.1. Conditions of Issuance. On or prior to the date of issuance of the Letter of Credit, the Borrower and the Guarantor shall have furnished to the Bank, in form satisfactory to the Bank, the following:

- (a) two executed counterparts of this Agreement and executed counterparts of each of the Security Instruments;
- (b) executed counterparts of each of the Bond Documents (except for the Bonds, as to which a specimen copy may be furnished);
- (c) evidence of compliance with the insurance requirements contained in Article VI hereof;
- (d) opinion(s) of counsel for the Borrower and the Guarantor, dated the date hereof, addressed to, and substantially in the form attached hereto as Exhibit E and otherwise in form and substance acceptable to, the Bank;
- (e) certificates of the Borrower and the Guarantor, as applicable, including references to (i) Articles of Incorporation, By-laws and other charter documents as applicable, (ii) resolutions of the Board of Directors, authorizing the execution, delivery and performance of the appropriate Bond Documents, this Agreement and the Security Instruments to which the Borrower or the Guarantor, as the case may be, is a party, (iii) incumbency and specimen signatures of officers, and (iv) such other matters as the Bank may require;
- (f) (a) copies of the Articles of Incorporation, By-laws or other charter documents, as applicable, of the Guarantor, certified as true and correct by an authorized officer as of the date of issuance of the Bonds; and (b) as to any corporations, certificates, dated no earlier than 20 days prior to the date of issuance of the Alternate Credit Facility, of the Secretary of State of the applicable states as to the good standing of the Borrower and the Guarantor;
- (g) an opinion of Bond Counsel, in substantially the form of Exhibit F hereto in form and substance satisfactory to the Bank and its counsel, and as to such other matters as the Bank may reasonably request;
- (h) copies of all governmental approvals required in connection with this transaction, including the resolution of the Issuer authorizing the authentication and issuance of the Bonds;
- (i) evidence of payment to the Bank of the commission pursuant to Section 4.4 of this Agreement;

(j) such other documents, instruments and certifications as the Bank may reasonably required.

Section 8.2. Additional Conditions Precedent to Issuance of the Letter of Credit. (a) The obligation of the Bank to issue the Letter of Credit shall be subject to the further conditions precedent that on the date of issuance the following statements shall be true and the Bank shall have received a certificate signed by the Chief Financial Officer or Controller of the Borrower and by the Guarantor, dated the date of issuance, stating that:

(i) The representations and warranties contained in Article II and Article III of this Agreement, Section 5 of the Pledge Agreement Section 2.2 of the Loan Agreement are correct on and as of the date of issuance of the Letter of Credit as though made on and as of such date; and

(ii) No event has occurred or would result from the issuance of the Letter of Credit, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both;

and (b) there shall have been no introduction of or change in, or in the interpretation of, any law or regulation that would make it unlawful or unduly burdensome for the Bank to issue the Letter of Credit, no outbreak or escalation of hostilities or other calamity or crisis, no suspension of or material limitation on trading on the New York Stock Exchange or any other national securities exchange, no declaration of a general banking moratorium by United States or Georgia banking authorities, and no establishment of any new restrictions on transactions in securities or on banks materially affecting the free market for securities or the extension of credit by banks.

Section 8.3. Conditions Precedent to Each Tender Advance. Each payment made by the Bank under the Letter of Credit pursuant to a Tender Draft shall constitute a Tender Advance hereunder only if on the date of such payment no event has occurred or would result from such Tender Advance, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

Unless the Borrower or the Guarantor shall have previously advised the Bank in writing or the Bank has actual knowledge that the above statement is no longer true, the Borrower and the Guarantor shall be deemed to have represented and warranted, on the date of payment by the Bank under the Letter of Credit pursuant to a Tender Draft, that on the date of such payment the above statement is true and correct.

ARTICLE IX

DEFAULT

Section 9.1. Events of Default. Each of the following shall constitute an Event of Default under this Agreement, whereupon all obligations, whether then owing or contingently owing, will, at the option of the Bank or its successors or assigns, immediately become due and payable by the Borrower without presentation, demand, protest or notice of any kind, all of which are hereby expressly waived, and the Borrower will pay the reasonable attorneys' fees incurred by the Bank, or its successors or assigns, in connection with such Event of Default:

(a) Failure of the Borrower or the Guarantor to pay within five (5) days of the date when due any payment of principal, interest, commission, charge or expense referred to in Article IV hereof; or

(b) The occurrence of an "Event of Default" under any of the Security Instruments or any of the Bond Documents; or

(c) The Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) shall default in the payment when due of any principal of or interest on any of its other Indebtedness of the Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) having a principal amount, individually or in the aggregate, in excess of \$10,000,000 or in the payment when due of any amount under any Interest Rate Protection Agreement; or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Indebtedness or any event specified in any Interest Rate Protection Agreement shall occur if the effect of such event is to cause, or (with the giving of any notice or the lapse of time or both) to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, such Indebtedness to become due, or to be prepaid in full (whether by redemption, purchase, offer to purchase or otherwise), prior to its stated maturity or, in the case of an Interest Rate Protection Agreement, to permit the payments owing under such Interest Rate Protection Agreement to be liquidated; or

(d) If any representation, warranty, certification or statement made by the Borrower or the Guarantor herein, or in any writing furnished by or on behalf of the Borrower or any of the Guarantor in connection with the loan by the Issuer under the Loan Agreement or pursuant to this Agreement, or any of the Security Instruments shall have been false, misleading or incomplete in any material respect on the date as of which made; or

(e) If the Borrower or the Guarantor default in the performance or observance of any agreement or covenant contained in Article VII hereof; or

(f) If the Borrower or the Guarantor default in the performance or observance of any other agreement, covenant, term or condition contained herein, and such default shall not have been remedied thirty (30) days after written notice thereof shall have been received by it from the Bank; or

(g) The Borrower or the Guarantor shall make an assignment for the benefit of creditors, file a petition in bankruptcy, have entered against or in favor of it an order for relief under the Federal Bankruptcy Code or similar law of any foreign jurisdiction, generally fail to pay its debts as they come due (either as to number or amount), admit in writing its inability to pay its debts generally as they mature, make a voluntary assignment for the benefit of creditors, commence any voluntary assignment for the benefit of creditors, commence any proceeding relating to it under any reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, or by any act, indicate its consent to, approval of or acquiescence in any such proceeding for the appointment of any receiver of, or trustee or custodian (as defined in the Federal Bankruptcy Code) for itself, or any substantial part of its property, or a trustee or a receiver shall be appointed for the Borrower or for a substantial part of the property of the Borrower or the Guarantor and such appointment remains in effect for more than sixty (60) days, or a petition in bankruptcy or for reorganization shall be filed against the Borrower or the Guarantor and such petition shall not be dismissed within sixty (60) days after such filing;

(h) If a final judgment, which with other outstanding final judgments against the Borrower or the Guarantor exceeds an aggregate of Ten Million Dollars (\$10,000,000), in excess of insurance, shall be rendered against the Borrower or the Guarantor and if within 30 days after entry thereof such judgment shall not have been discharged or execution thereof stayed pending appeal, or if within 30 days after the expiration of any such stay such judgment shall not have been discharged;

then at any time thereafter, the Bank may (a) pursuant to Section 902 of the Indenture, advise the Trustee that an Event of Default has occurred and instruct the Trustee to declare the principal of all Bonds then outstanding and interest thereon to be immediately due and payable, and (b) proceed hereunder, and under the Security Instruments and, to the extent therein provided, under the Bond Documents, in such order as it may elect and the Bank shall have no obligation to proceed against any Person or exhaust any other remedy or remedies which it may have and without resorting to any other security, whether held by or available to the Bank.

Section 9.2. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Bank is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder and the Security Instruments or now or hereafter existing at law or in equity or by statute.

ARTICLE X  
MISCELLANEOUS

Section 10.1. Indemnification.

(a) (i) Each of the Borrower and the Guarantor, jointly and severally, hereby indemnifies and holds the Bank harmless from and against any and all claims, damages, losses, liabilities, costs or expenses whatsoever which the Bank may incur (or which may be claimed against the Bank by any Person) (i) by reason of or in connection with the execution and delivery or transfer of, or payment or failure to pay under, the Letter of Credit, provided that the Borrower and the Guarantor shall not be required to indemnify the Bank for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (a) the gross negligence or willful misconduct of the Bank in connection with paying drafts presented under the Letter of Credit or (b) the Bank's willful failure to pay under the Letter of Credit (other than in connection with a court order) after the presentation to it by the Trustee or a successor corporate fiduciary under the Indenture of a sight draft and certificate strictly complying with the terms and conditions of the Letter of Credit or (c) any other failure of the Bank to conform to the Uniform Customs and Practice; or (ii) by reason of or in connection with the execution, delivery or performance of any of this Agreement, the Security Instruments or any transaction contemplated by any thereof.

(b) Each of the Borrower and the Guarantor, jointly and severally, hereby indemnifies and holds the Bank harmless from and against any and all damages, penalties, fines, claims, liens, suits, liabilities, costs (including clean-up costs), judgments and expenses (including attorneys', consultants' or experts' fees and expenses) of every kind and nature suffered by or asserted against the Bank as a direct or indirect result of any warranty or representation made by the Borrower and the Guarantor in Section 2.11 hereof, respectively, being false or untrue in any material respect or any requirement under any law, regulation or ordinance, local, state, or federal, which requires the elimination or removal of any hazardous materials, substances, wastes or other environmentally regulated substances at the Project Site, except to the extent that any such damages, penalties, fines, claims, liens, suits, liabilities, costs, judgments or expenses result directly or indirectly from the actions of the Bank or any of its directors, officers, shareholders or employees. The Borrower's and the Guarantor's obligations hereunder to the Bank shall not be limited to any extent by the term of this Agreement, and, as to any act or occurrence prior to the termination of this Agreement which gives rise to liability hereunder, shall continue, survive and remain in full force and effect notwithstanding the termination of the Bank's obligations hereunder.

Anything herein to the contrary notwithstanding, nothing in this Section 10.1 is intended or shall be construed to limit the Borrower's reimbursement obligation or the Guarantor's guaranty obligation contained in Article IV hereof. Without prejudice to the survival of any other obligation of the Borrower or the Guarantor, the indemnities and obligations of the Borrower and the Guarantor contained in this Section 10.1 shall survive the payment in full of amounts payable pursuant to Article IV and the Termination Date.

Section 10.2. Transfer of Letter of Credit. The Letter of Credit may be transferred and assigned in accordance with the terms of the Letter of Credit.

Section 10.3. Reduction of Letter of Credit

(a) The Letter of Credit is subject to reduction pursuant to its terms.

(b) If the amount available to be drawn under the Letter of Credit shall be permanently reduced in accordance with the terms thereof, then the Bank shall have the right to require the Trustee to surrender the Letter of Credit to the Bank and to issue on such date, in substitution for such outstanding Letter of Credit, a substitute irrevocable letter of credit, substantially in the form of the Letter of Credit but with such changes therein as shall be appropriate to give effect to such reduction, dated such date, for the amount to which the amount available to be drawn under the Letter of Credit shall have been reduced.

Section 10.4. Liability of the Bank. Neither the Bank nor any of its officers, directors, employees, agents or consultants shall be liable or responsible for:

(a) the use which may be made of the Letter of Credit or for any acts or omissions of the Trustee or any beneficiary or transferee in connection therewith;

(b) the validity, sufficiency or genuineness of documents, or of any endorsement(s) thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged;

(c) payment by the Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or

(d) any other circumstances whatsoever in any way related to the making or failure to make payment under the Letter of Credit;

except only that the Borrower and the Guarantor shall have a claim against the Bank, and the Bank shall be liable to the Borrower and the Guarantor, to the extent but only to the extent, of any direct, as opposed to consequential, damages suffered by the Borrower or the Guarantor which were caused by (i) the gross negligence or willful misconduct of the Bank in determining whether documents presented under the Letter of Credit complied with the terms of the Letter of Credit or (ii) wrongful failure of the Bank to pay under the Letter of Credit after the presentation to it by the Trustee or a successor trustee under the Indenture of a sight draft and certificate strictly complying with the terms and conditions of the Letter of Credit or (iii) any other failure of the Bank to conform to the requirements of the Uniform Customs and Practice. In furtherance and not in limitation of the foregoing, the Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

Section 10.5. Successors and Assigns. This Agreement shall be binding upon the Borrower, the Guarantor and the Bank, their respective successors and assigns and all rights against the Borrower or the Guarantor arising under this Agreement shall be for the sole benefit

of the Bank, its successors and assigns, all of whom shall be entitled to enforce performance and observance of this Agreement to the same extent as if they were parties hereto.

Section 10.6. Notices. All notices, requests and demands to or upon the respective parties hereto shall be deemed to have been given or made when hand delivered or mailed first class, certified or registered mail, postage prepaid, or by overnight courier service, addressed as follows or to such other address as the parties hereto shall have been notified pursuant to this Section 10.6:

The Bank: SunTrust Bank  
25 Park Place, 16th Floor  
Atlanta, Georgia 30303  
Attention: Letter of Credit Department

with a copy to: SunTrust Capital Markets  
303 Peachtree Street, 24th Floor  
Atlanta, Georgia 30303

The Borrower: Leslie Controls, Inc.  
c/o CIRCOR International, Inc.  
35 Corporate Drive  
Suite 290  
Burlington, Massachusetts 01803-4244  
Attention: Corporate Controller

The Guarantor: CIRCOR International, Inc.  
35 Corporate Drive  
Suite 290  
Burlington, Massachusetts 01803-4244  
Attention: Chief Financial Officer

except in cases where it is expressly herein provided that such notice, request or demand is not effective until received by the party to whom it is addressed, in which event said notice, request or demand shall be effective only upon receipt by the addressee.

Section 10.7. Amendment. This Agreement may be amended, modified or discharged only upon an agreement in writing of the Borrower, the Guarantor and the Bank.

Section 10.8. Effect of Delay and Waivers. No delay or omission to exercise any right or power accruing upon any default, omission or failure of performance hereunder shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Bank to exercise any remedy now or hereafter existing at law or in equity or by statute, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. In the event any provision contained in this Agreement should be breached by any party and thereafter waived by the other party so empowered to act, such waiver shall be limited to the particular breach hereunder. No waiver, amendment, release or modification of

this Agreement shall be established by conduct, custom or course of dealing, but solely by an instrument in writing duly executed by the parties thereunto duly authorized by this Agreement.

Section 10.9. Counterparts. This Agreement may be executed simultaneously in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 10.10. Severability. The invalidity or unenforceability of any one or more phrases, sentences, clauses or Sections contained in this Agreement shall not affect the validity or enforceability of the remaining portions of this Agreement, or any part thereof.

Section 10.11. Cost of Collection. Each of the Borrower and the Guarantor shall be liable for the payment of all reasonable fees and expenses, including reasonable attorneys' fees (computed without regard to any statutory presumption), incurred in connection with the enforcement of this Agreement.

Section 10.12. Set Off. Upon the occurrence of an Event of Default hereunder, the Bank is hereby authorized, without notice to the Borrower or the Guarantor, to set off, appropriate and apply any and all monies, securities and other properties of the Borrower or the Guarantor hereafter held or received by or in transit to the Bank from or for the Borrower or the Guarantor, against the obligations of the Borrower or the Guarantor irrespective of whether the Bank shall have made any demand hereunder or any other Credit Security Instrument under and although such obligations may be contingent or unmatured.

Section 10.13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia. The Guarantor hereby acknowledge that the Letter of Credit shall be governed by and construed in accordance with Uniform Customs and Practice.

Section 10.14. References. The words "herein", "hereof", "hereunder" and other words of similar import when used in this Agreement refer to this Agreement as a whole, and not to any particular article, section or subsection.

Section 10.15. Consent to Jurisdiction, Venue. In the event that any action, suit or other proceeding is brought against the Borrower or the Guarantor by or on behalf of the Bank to enforce the observance or performance of any of the provisions of this Agreement or of any of the Security Instruments, including without limitation the collection of any amounts owing thereunder, each of the Borrower and the Guarantor hereby (i) irrevocably consents to the exercise of jurisdiction over the Borrower and the Guarantor and to the extent permitted by applicable laws, their property, by the United States District Court, Northern District of Georgia, and by Supreme Court of Georgia or the State Court and (ii) irrevocably waives any objection it might now or hereafter have or assert to the venue of any such proceeding in any court described in clause (i) above.

IN WITNESS WHEREOF, the Borrower, the Guarantor and the Bank have caused this Agreement to be executed in their respective names, as a sealed instrument all as of the date first above written.

THE BORROWER:

LESLIE CONTROLS, INC.

By: /S/ DAVID A. BLOSS, SR.

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Title: President

(Signature Page - Letter of Credit, Reimbursement and Guaranty Agreement - Leslie)

THE GUARANTOR:  
CIRCOR INTERNATIONAL, INC.

By: /S/ DAVID A. BLOSS, SR.

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Title: Chairman, Chief Executive Officer and  
President

(Signature Page - Letter of Credit, Reimbursement and Guaranty Agreement - Leslie)

THE BANK:  
SUNTRUST BANK

By: /S/ LAURA KAHN

\_\_\_\_\_  
Title: Director and Senior Relationship Manager

ATTEST:

\_\_\_\_\_  
Title: \_\_\_\_\_

(Signature Page - Letter of Credit, Reimbursement and Guaranty Agreement - Leslie)

EXHIBIT A

[FORM OF LETTER OF CREDIT]

IRREVOCABLE LETTER OF CREDIT

Date: March 3, 2004

LETTER OF CREDIT NO.: \_\_\_\_\_

U.S. Bank National Association  
as Trustee  
One Federal Street, 3<sup>rd</sup> Floor  
Boston, MA 02110

Attention: Corporate Trust Department:

We hereby issue to you, U.S. Bank National Association, as Trustee under the Trust Indenture, dated as of July 1, 1994 (the "Indenture"), between the Hillsborough County Industrial Development Authority (the "Issuer") and you, pursuant to which \$4,760,000 aggregate principal amount of Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994 (the "Bonds"), are currently outstanding, this irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit") for the account of Leslie Controls, Inc., a New Jersey corporation (the "Borrower") in the amount of \$4,994,740 (the "Initial Stated Amount" and, as from time to time reduced and reinstated as hereinafter provided, the "Amount Available"), of which (i) subject to the provisions below reducing amounts available hereunder, \$4,760,000 (as from time to time reduced and reinstated as hereinafter provided, the "Principal Amount Available") shall be available for the payment of principal or the portion of the purchase price corresponding to principal of the Bonds and (ii) subject to the provisions below reducing amounts available hereunder, \$234,740 (as from time to time reduced and reinstated as hereinafter provided, the "Interest Amount Available") shall be available for the payment of up to 120 days' interest or the portion of the purchase price corresponding to interest on the Bonds at an assumed rate of 15% per annum (computed on the basis of a year of 365 days). Subject to such aggregate limits and to the conditions set forth herein, funds may be drawn upon hereunder (i) with respect to payment of the unpaid principal amount or the portion of purchase price corresponding to the principal of the Bonds and (ii) with respect to payment of up to 120 days' interest accrued and payable or the portion of purchase price corresponding to interest accrued on the Bonds on or prior to their stated maturity date. This Letter of Credit is effective immediately and expires at 3:00 P.M. (Eastern time) at our Presentation Office (as hereinafter defined) on March 1, 2005 (as may be extended from time to time as hereinafter described, the "Stated Termination Date"), or earlier as hereinafter provided. This Letter of Credit shall automatically

be extended for an additional one-year period from the then applicable Stated Termination Date unless we give you, or any successor Trustee, written notice of our election not to renew this Letter of Credit at least 120 days prior to the then applicable Stated Termination Date by U.S. certified mail, return receipt requested. All drawings under this Letter of Credit will be paid with our own funds.

We hereby irrevocably authorize you to draw on us, in an aggregate amount not to exceed the Amount Available and in accordance with the terms and conditions and subject to the reductions in amounts as hereinafter set forth, (1) in one or more drawings (subject to the provisions contained in the next following paragraph) by one or more of your drafts drawn on us at sight, presented for payment on a day on which banks are not required or authorized to close in Atlanta, Georgia (a "Business Day") and referring therein to the number of this Letter of Credit, and accompanied by your written and completed certificate signed by you in the form of Annex A attached hereto (any such draft accompanied by such certificate being your "Interest Draft"), an amount not exceeding the Interest Amount Available on the date of such drawing; (2) in one or more drawings by one or more of your drafts drawn on us at sight, presented for payment on a Business Day and referring therein to the number of this Letter of Credit, and accompanied by your written completed certificate signed by you in the form of Annex B attached hereto (any such draft accompanied by such certificate being your "Tender Draft"), an aggregate amount not exceeding the Amount Available on the date of such drawing; (3) in one or more drawings by one or more of your drafts drawn on us at sight, presented for payment on a Business Day and referring therein to the number of this Letter of Credit, and accompanied by your written and completed certificate signed by you in the form of Annex C attached hereto (any such draft accompanied by such certificate being your "Partial Redemption Draft"), an aggregate amount not exceeding the Amount Available on the date of such drawing; (4) in a single drawing by your draft drawn on us at sight presented for payment on a Business Day and referring therein to the number of this Letter of Credit, and accompanied by your written and completed certificate signed by you in the form of Annex D hereto (any such draft accompanied by such certificate being your "Conversion Draft"), an amount not exceeding the Amount Available on the date of such drawing; and (5) in a single drawing by your draft drawing on us at sight, presented for payment on a Business Day and referring therein to the number of this Letter of Credit, and accompanied by your written and completed certificate signed by you in the form of Annex E attached hereto (such draft accompanied by such certificate being your "Final Draft"), an amount not exceeding the Amount Available on the date of such drawing.

If you shall draw on us by an Interest Draft and you shall not have received from us within ten (10) calendar days from the date of our payment in respect of such drawing a notice to the effect that we have not been reimbursed for such drawing and that the interest portion of the Letter of Credit will not be reinstated, then (x) your right to draw on us in a single drawing by your Interest Draft under clause (1) of the immediately preceding paragraph shall be automatically reinstated and (y) effective as of the eleventh (11th) calendar day from the date of our payment in respect of such drawing, you shall again be authorized to draw on us by your Interest Draft in accordance with said clause (1). The provisions of this paragraph providing for the reinstatement of your right to draw on us by your Interest Draft in a succeeding single drawing shall be applicable to each successive drawing by your Interest Draft under clause (1) of

the immediately preceding paragraph so long as this Letter of Credit shall not have terminated as set forth below.

Upon our honoring any Tender Draft presented by you hereunder, the Amount Available under this Letter of Credit shall be automatically reduced by the amount drawn under such Tender Draft, the Principal Amount Available to be drawn hereunder by you shall be automatically reduced by an amount equal to the principal component of such Tender Draft and the Interest Amount Available to be drawn hereunder by you shall be automatically reduced by an amount equal to the amount of the interest component of such Tender Draft.

Upon our honoring any Partial Redemption Draft presented by you hereunder, the Amount Available under this Letter of Credit shall be automatically and permanently reduced by the amount drawn under any such Partial Redemption Draft, the Principal Amount Available to be drawn hereunder by you shall be automatically and permanently reduced by an amount equal to the principal component of such Partial Redemption Draft honored by us hereunder and the Interest Amount Available to be drawn hereunder by you shall be automatically and permanently reduced by an amount equal to the amount of the interest component of any such Partial Redemption Draft honored by us hereunder.

Upon our honoring any Conversion Draft presented by you hereunder, the Amount Available under this Letter of Credit shall be automatically and permanently reduced by the amount drawn under any such Conversion Draft, the Principal Amount Available to be drawn hereunder by you shall be automatically and permanently reduced by an amount equal to the principal component of such Conversion Draft-honored by us hereunder, and the Interest Amount Available to be drawn hereunder by you shall be automatically and permanently reduced by an amount equal to the amount of the interest component of any such Conversion Draft honored by us hereunder.

The Amount Available, the Principal Amount Available and the Interest Amount Available to be drawn under this Letter of Credit with respect to any Tender Draft shall be reinstated as provided in this paragraph to the extent, but only to the extent, that we are reimbursed by or on behalf of the Borrower in immediately available funds delivered to us at the Presentation Office, on or before 3:00 P.M. (Eastern time), on a Business Day for any amount drawn in respect of principal and interest under any Tender Draft. If we receive such reimbursement by or on behalf of the Borrower, all in strict conformity with the terms and conditions of this Letter of Credit, after 3:00 P.M. (Eastern time), on a Business Day prior to the termination hereof, such reimbursement will be honored as stated above as if received on the next succeeding Business Day. Any amount received by us from or on behalf of the Borrower in reimbursement of amounts drawn hereunder by a Tender Draft shall, if accompanied by your completed certificate signed by you in the form of Annex F attached hereto, be applied to the extent of the amount received by us and indicated therein to reimburse us for amounts drawn hereunder by your Tender Drafts and we will confirm to you the amount of the Principal Amount Available and the Interest Amount Available increased by such reimbursement by delivering to you the executed and completed acknowledgment accompanying the form of Annex F delivered by you in connection with such reimbursement. The Amount Available, the Principal Amount

Available and the Interest Amount Available shall be increased only in compliances with the provisions of this paragraph.

Each draft and certificate presented hereunder shall be dated the date of its presentation and each such draft and certificate shall be presented at our office located at 25 Park Place, 16th Floor, Atlanta, Georgia 30303, Attention: Letter of Credit Department (or at any other office which may be designated by us by written notice delivered to you at least three Business Days prior to a date on which interest is payable on the Bonds) (the "Presentation Office") and shall be presented on a Business Day. If we receive any of your drafts and certificates at such office, all in strict conformity with the terms and conditions of this Letter of Credit, not later than 11:00 A.M. (Eastern time), on a Business Day on or prior to the termination hereof, we will honor the same by initiating the wiring of funds by 2:30 P.M. (Eastern time) on the same day in accordance with your payment instructions. If we receive any of your drafts and certificates at such office, all in strict conformity with the terms and conditions of this Letter of Credit, after 11:00 A.M. (Eastern time), on a Business Day prior to the termination hereof, we will honor the same on the next succeeding Business Day in accordance with your payment instructions. If requested by you, payment under this Letter of Credit may be made by transfer of immediately available funds to your account in a bank or by deposit of same day funds into a designated account that you maintain with us.

In connection with the presentation of any Tender Draft or Conversion Draft, Bonds in aggregate principal amount equal to the principal amount of such Tender Draft or Conversion Draft shall be delivered to the Bank or its designee as promptly as practicable, and in any event within five Business Days after such presentation, registered in the name of the Bank, or its designee, as pledgee of the Borrower, pledged to the Bank pursuant to the Pledge Agreement. With respect to any Tender Draft, the Bank agrees that it shall not release any Bonds pledged to it until the Letter of Credit shall have been reinstated so that the Amount Available, as so reinstated, shall equal or exceed the aggregate principal and 120 days' interest calculated at an assumed rate of 15% per annum on all Bonds for which drawings are available hereunder after giving effect to such release.

Upon the earliest of (i) our honoring your Final Draft presented hereunder, (ii) the second day following the date on which we receive a certificate signed by you stating that the interest rate on the Bonds has been converted to a fixed interest rate, (iii) the date on which we receive a certificate signed by you stating that the Borrower has provided and you have accepted an Alternate Credit Facility in accordance with the terms of the Indenture which is effective the date of such certificate, or (iv) the Stated Termination Date, this Letter of Credit shall terminate.

This Letter of Credit is transferable only in its entirety to any transferee whom you certify to us has succeeded you as Trustee under the Indenture, and may be successively transferred. Transfer of the Amount Available under this Letter of Credit to such transferee shall be effected by the presentation to us of this Letter of Credit accompanied by a certificate in the form of Annex G attached hereto and payment of the transfer commission referred to therein. Upon such presentation we shall forthwith transfer the same to your transferee or, if so requested by your transferee, issue a letter of credit to your transferee with provisions therein consistent with this Letter of Credit.

This Letter of Credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein (including, without limitation, the Bonds or the Indenture), except only the certificates and the drafts referred to herein which are hereby incorporated by reference; and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except for such certificates and such drafts.

Except as otherwise provided herein, this Letter of Credit shall be governed by and construed in accordance with the Uniform Customs and Practice for Documentary Credits (1993 Revisions), International Chamber of Commerce Publication No. 500 (the "UCP") and, to the extent not inconsistent therewith, the laws of the State of Georgia. Communications with respect to this Letter of Credit other than presentations of drafts and certificates hereunder shall be in writing and shall be addressed to us at 25 Park Place, 16th Floor, Atlanta, Georgia 30303, Attention: Letter of Credit Department, specifically referring to the number of this Letter of Credit.

Very truly yours,

SUNTRUST BANK

By: \_\_\_\_\_

Title: Vice President

Annex A

[Form of Certificate for Interest Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT  
OF UP TO 120 DAYS' INTEREST

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with references to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment of interest on the Bonds, which payment is due and payable on a regular Interest Payment Date. On the record date for such Interest Payment Date, none of such Bonds for which interest is drawn pursuant to the draft were held of record by the Borrower, or by the Bank, or its designee, as pledgee of the Borrower.

(3) [The Interest Draft accompanying this Certificate is the first Interest Draft presented by the Trustee under the Letter of Credit.]\* [The Interest Draft last presented by the Trustee under the Letter of Credit was honored and paid by the Bank on \_\_\_\_\_, \_\_\_\_\_, and the Trustee had not received a notice within ten days of presentation of such Interest Draft from the Bank that the Bank has not been reimbursed.]\*\*

(4) The amount of the Interest Draft accompanying this Certificate is \$\_\_\_\_\_. It was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the Interest Amount Available to be drawn by the Trustee under the Letter of Credit.

(5) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the interest amount owing on account of the Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose, and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_

\* To be used in the Certificate relating to the first Interest Draft only.

\*\* To be used in each Certificate relating to each Interest Draft other than the first Interest Draft.

Annex B

[Form of Certificate for Tender Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT  
OF PRINCIPAL PURCHASE PRICE AND PORTION OF PURCHASE PRICE  
CORRESPONDING TO INTEREST OF BONDS TENDERED

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined herein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the registered owners of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment, upon a tender of all or less than all of the Bonds, which are Outstanding (as defined in the Indenture), of the unpaid principal amount of the Bonds and accrued interest thereon to be purchased as a result of such tender pursuant to the terms of Article III of the Indenture (other than Bonds, presently held of record by the Borrower, or by the Bank, or its designee, as pledge of the Borrower) which payment is due on the date on which this Certificate and the Tender Draft it accompanies are being presented to the Bank.

(3) The amount of the Tender Draft accompanying this Certificate is equal to the sum of (i) \$\_\_\_\_\_ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by the Borrower or by the Bank, or its designee, as pledgee of the Borrower) to be purchased as a result of a tender, which amount does not exceed the Principal Amount Available under the Letter of Credit, and (ii) \$\_\_\_\_\_ being drawn in respect of the payment of \_\_\_\_\_ days' [not to exceed 120 days'] accrued and unpaid interest on such Bonds constituting a portion of the purchase price of such Bonds being purchased as a result of a tender, which amount does not exceed the Interest Amount Available under the Letter of Credit.

(4) The Trustee shall register or cause to be registered in the name of the Bank, or its designee, as pledgee of the Borrower, pursuant to Section 3 of the Pledge Agreement, and shall deliver or cause to be delivered to the Bank or its designee Bonds in the principal amount of the Tender Draft accompanying this Certificate as promptly as

practicable, and in any event within five Business Days after presentation of the Tender Draft accompanying this Certificate.

(5) Upon receipt of the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the purchase price of Bonds tendered pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any, other purpose, and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

(6) The amount of the Tender Draft accompanying this Certificate was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the Amount Available under the Letter of Credit.

The Trustee acknowledges that, pursuant to the terms of the Letter of Credit, upon the Bank's honoring of the Tender Draft accompanying this Certificate, (i) the Amount Available under the Letter of Credit shall be automatically reduced by the aggregate amount of such Tender Draft, (ii) the Principal Amount Available under the Letter of Credit shall be automatically reduced by an amount equal to the amount of the principal component of such draft set forth in paragraph 3 above, and (iii) the Interest Amount Available under the Letter of Credit shall be automatically reduced by an amount equal to the amount of the interest component of such draft set forth in paragraph 3 above, subject to reinstatement as set forth in the Letter of Credit.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

U.S. Bank National Association,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex C

[Form of Certificate for Partial Redemption Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT  
OF PRINCIPAL AND UP TO 120 DAYS' INTEREST UPON  
PARTIAL REDEMPTION

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the registered owners of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment, upon redemption of less than all of the Bonds which are Outstanding (as defined in the Indenture), of the unpaid principal amount of, and up to 120 days' accrued and unpaid interest on, the Bonds to be redeemed pursuant to the Indenture (other than Bonds presently held of record by the Borrower, or by the Bank, or its designee, as pledgee of the Borrower).

(3) The amount of the Partial Redemption Draft accompanying this Certificate is \$ \_\_\_\_\_ and is equal to the sum of (i) \$ \_\_\_\_\_ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by the Borrower or by Bank, or its designee, as pledgee of the Borrower) to be redeemed, which amount does not exceed the Principal Amount Available under the Letter of Credit and (ii) \$ \_\_\_\_\_ being drawn in respect of the payment of \_\_\_\_\_ days' [not to exceed 120 days'] accrued and unpaid interest on such Bonds, which amount does not exceed the Interest Amount Available under the Letter of Credit.

(4) The amount of the Partial Redemption Draft accompanying this Certificate was computed in accordance with the terms and conditions of the Bonds and the Indenture and does not exceed the Amount Available under the Letter of Credit.

(5) This Certificate and the Partial Redemption Draft it accompanies are dated, and are being presented to the Bank on, the date on which the unpaid principal amount of, and accrued and unpaid interest on, Bonds to be redeemed are due and payable under the Indenture upon redemption of less than all of the Bonds which are Outstanding (as defined in the Indenture).

(6) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the principal amount of and accrued and unpaid interest on the Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

The Trustee acknowledges that, pursuant to the terms of Letter of Credit, upon the Bank's honoring the Partial Redemption Draft accompanying this Certificate, (i) the Amount Available under the Letter of Credit shall be permanently reduced by the aggregate amount of such Partial Redemption Draft, (ii) the Principal Amount Available under the Letter of Credit shall be permanently reduced by an amount equal to the amount of the principal component of such draft set forth in paragraph 3 above and (iii) the Interest Amount Available under the Letter of Credit shall be permanently reduced by an amount of the interest component of such draft set forth in paragraph 3 above.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

U.S. Bank National Association,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex D

[Form of Certificate for Conversion Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE  
PAYMENT OF PRINCIPAL PLUS ACCRUED INTEREST  
UPON A MANDATORY PURCHASE  
(CONVERSION TO A FIXED INTEREST RATE)

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the registered owners of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment, upon a mandatory tender for purchase pursuant to Section 202(e) of the Indenture (conversion to a Fixed Interest Rate within the meaning of the Indenture) of all or less than all of the Bonds which are Outstanding (as defined in the Indenture), of the unpaid principal amount of, and up to 120 days' accrued and unpaid interest on, the Bonds to be so purchased (other than Bonds presently held of record by the Borrower, or the Bank, or its designee, as pledgee of the Borrower), which payment is due on the date on which this Certificate and the Conversion Draft it accompanies are being presented to the Bank.

(3) The amount of the Conversion Draft accompanying this Certificate is \$\_\_\_\_\_ and is equal to the sum of (i) \$\_\_\_\_\_ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by the Borrower, or by the Bank, or its designee, as pledgee of the Borrower) to be purchased, which amount does not exceed the Principal Amount Available under the Letter of Credit, and (ii) \$\_\_\_\_\_ being drawn in respect of the payment of days' [Not to exceed 120 days'] accrued and unpaid interest on such Bonds, which amount does not exceed the Interest Amount Available under the Letter of Credit.

(4) The amount of the Conversion Draft accompanying this Certificate was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the Amount Available under the Letter of Credit.

(5) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the principal amount of, and interest accrued and unpaid on, the Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

(6) The Trustee shall register or cause to be registered in the name of the Bank, or its Agent, as pledgee of the Borrower, pursuant to Section 3 of the Pledge Agreement and shall deliver or cause to be delivered to the Bank of its Agent a principal amount of bonds equal to the principal amount of the Conversion Draft accompanying this Certificate as promptly as practicable, and in any event within five Business Days after presentation of the Conversion Draft accompanying this Certificate.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the day of \_\_\_\_\_, 20\_\_.

U.S. Bank National Association,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex E

[Form of Certificate for Final Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT  
OF PRINCIPAL PLUS ACCRUED INTEREST, UPON STATED  
OR ACCELERATED MATURITY OR OPTIONAL OR MANDATORY  
REDEMPTION AS A WHOLE

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the registered owners of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment, either at stated maturity, upon acceleration, or as a result of a redemption as a whole pursuant to the Indenture, of the unpaid principal amount of and up to 120 days' accrued and unpaid interest on, all of the Bonds which are "Outstanding" within the meaning of the Indenture (other than Bonds presently held of record by the Borrower or by the Bank, or its designee, as pledgee of the Borrower).

(3) The amount of the Final Draft accompanying this Certificate is \$\_\_\_\_\_ and is equal to the sum of (i) \$\_\_\_\_\_ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by the Borrower or by the Bank, or its designee, as pledgee of the Borrower), which amount does not exceed the Principal Amount Available under the Letter of Credit, and (ii) \$\_\_\_\_\_ being drawn in respect of the payment of \_\_\_\_\_ days' [not to exceed 120 days'] accrued and unpaid interest on such Bonds, which amount does not exceed the Interest Amount Available under the Letter of Credit.

(4) The amount of the Final Draft accompanying this Certificate was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the Amount Available under the Letter of Credit.

(5) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the principal amount and accrued and unpaid interest thereon owing on account of the Bond pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for

any other purpose and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

U.S. Bank National Association,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex F

[Form of Reinstatement Certificate For Tender Draft]

CERTIFICATE FOR THE REINSTATEMENT OF AMOUNTS AVAILABLE  
UNDER IRREVOCABLE LETTER OF CREDIT NO. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(2) The amount of \$\_\_\_\_\_ paid to you today by or on behalf of the Borrower is a payment made to reimburse you, pursuant to Section 4.2 of the Letter of Credit, Reimbursement and Guaranty Agreement, dated as of March 1, 2004 (the "Reimbursement Agreement"), between the Borrower and the Bank, for amounts drawn under the Letter of Credit by Tender Drafts. The Trustee hereby requests that you reinstate the Letter of Credit upon receipt of such payment in an amount equal to the amount of payment so received.

(3) Of the amount referred to in paragraph (2), \$\_\_\_\_\_ represents the aggregate principal amount of Bonds resold or to be sold on behalf of the Borrower.

(4) Of the amount referred to in paragraph (2), \$\_\_\_\_\_ represents accrued and unpaid interest on the Bonds.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the - day of \_\_\_\_\_, 20\_\_.

U.S. Bank National Association,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

ACKNOWLEDGMENT

The Bank hereby confirms to the Trustee that the Principal Amount Available under the Letter of Credit has been reinstated by the amount of \$\_\_\_\_\_ and the Interest Amount Available under the Letter of Credit has been reinstated by the amount of \$\_\_\_\_\_

This \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

SUNTRUST BANK

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex G

[Form of Transfer Certificate]

INSTRUCTION TO TRANSFER

SunTrust Bank  
25 Park Place, 16th Floor  
Atlanta, Georgia 30303

Attention: Letter of Credit Department

Re: Your Irrevocable Letter of Credit No. \_\_\_\_\_

Ladies and Gentlemen:

For value received, the undersigned beneficiary (the "Transferor") hereby irrevocably transfer to:

\_\_\_\_\_  
[Name of Transferee]

\_\_\_\_\_  
[Address]

(the "Transferee") all rights of the Transferor with respect to the above-referenced Letter of Credit, including the right to draw under said Letter of Credit in the Amount Available. Said Transferee has succeeded the Transferor as Trustee under that certain Trust Indenture, dated as of July 1, 1994, by and between the Hillsborough County Industrial Development Authority and U.S. Bank National Association, as Trustee, thereunder (the "Indenture"), with respect to the \$4,765,000 Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994, and has complied with the provisions of the Indenture.

By virtue of this transfer, the Transferee shall have the sole rights as beneficiary of said Letter of Credit, including sole rights relating to any past or future amendments thereof, whether increases or extensions or otherwise. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the Transferor.

By its signature below, the Transferee acknowledges that it has duly succeeded the Transferor as Trustee pursuant to the Indenture.

The advice of such Letter of Credit is returned herewith, along with a transfer fee of \$1,000.00, and we ask you to endorse the transfer on the reverse side thereof and to forward it directly to the Transferee with your customary notice of transfer.

Very truly yours,  
U.S. Bank National Association,  
as Trustee

By: \_\_\_\_\_

[insert name and title of authorized officer]

[Corporate Seal]

Acknowledged by:

\_\_\_\_\_  
[insert name of Transferee]

By: \_\_\_\_\_

[insert name and title of authorized officer]

[Corporate Seal]

**LETTER OF CREDIT, REIMBURSEMENT AND  
GUARANTY AGREEMENT**

**Dated as of March 1, 2004**

## TABLE OF CONTENTS

Article I	Definitions	2
Article II	Representations and Warranties of the Guarantor	10
Section 2.1.	Incorporation	10
Section 2.2.	Power and Authority; No Conflicts; Enforceability	10
Section 2.3.	Financial Condition	10
Section 2.4.	Title to Property and Assets	11
Section 2.5.	Litigation	11
Section 2.6.	Taxes	11
Section 2.7.	Trademarks, Franchises and Licenses	11
Section 2.8.	No Default	11
Section 2.9.	Governmental Authority	11
Section 2.10.	ERISA	12
Section 2.11.	Pollution and Environmental Control: Hazardous Substances	12
Section 2.12.	Capital Structure	12
Section 2.13.	Solvent Financial Condition	12
Section 2.14.	Restrictions	12
Section 2.15.	Full Disclosure	12
Section 2.16.	Labor Relations	13
Section 2.17.	Compliance With Laws	13
Section 2.18.	Brokers	13
Section 2.19.	Trade Relations	13
Section 2.20.	Investment Company Act	13
Section 2.21.	Survival of Representations and Warranties	13
Article III	Representations and Warranties of the Borrower	14
Section 3.1.	Incorporation	14
Section 3.2.	Power and Authority	14
Section 3.3.	Governmental Authority	14
Section 3.4.	Project Site	14
Section 3.5.	Survival of Representations and Warranties.	14
Article IV	Terms of Letter of Credit, Reimbursement, Other Payments and Guaranty	15
Section 4.1.	Letter of Credit	15
Section 4.2.	Reimbursement and Other Payments	15
Section 4.3.	Tender Advances	15
Section 4.4.	Commission and Fee	16
Section 4.5.	Increased Costs	17
Section 4.6.	Computation	17
Section 4.7.	Parent Procedure	17

Section 4.8.	Business Days	17
Section 4.9.	Reimbursement of Expenses	17
Section 4.10.	Expiration Date	18
Section 4.11.	Guaranty	18
Section 4.12.	Obligations Absolute	19
Section 4.13.	Waiver of Guarantor's Rights	19
Article V	Security; Insurance	20
Section 5.1.	Security	20
Section 5.2.	Casualty and Liability Insurance Required	20
Section 5.3.	Notice of Casualty or Taking	20
Article VI	Affirmative Covenants	21
Section 6.1.	Financial Reports and Other Data and Information	21
Section 6.2.	Books, Records and Inspections	22
Section 6.3.	Maintenance of Property, Insurance	22
Section 6.4.	Corporate Franchises	23
Section 6.5.	Compliance with Statutes, etc	23
Section 6.6.	ERISA	23
Section 6.7.	Performance of Obligations	23
Section 6.8.	Taxes and Liens	24
Section 6.9.	Payment of Obligations	24
Section 6.10.	Environmental Matters	24
Article VII	Negative Covenants	25
Section 7.1.	Negative Pledge; Liens	25
Section 7.2.	Consolidation or Merger	26
Section 7.3.	Sale of Assets, Dissolution, Etc.	26
Section 7.4.	Indebtedness, Loans and Investments	26
Section 7.5.	Leverage Ratio	26
Section 7.6.	Interest Coverage Ratio	26
Section 7.7.	Fixed Charges Coverage Ratio	26
Section 7.8.	Tangible Net Worth	26
Article VIII	Conditions to Issuance of Letter of Credit	27
Section 8.1.	Conditions of Issuance	27
Section 8.2.	Additional Conditions Precedent to Issuance of the Letter of Credit	28
Section 8.3.	Conditions Precedent to Each Tender Advance	28
Article IX	Default	29
Section 9.1.	Events of Default	29
Section 9.2.	No Remedy Exclusive	30

Article X	Miscellaneous	31
Section 10.1.	Indemnification	31
Section 10.2.	Transfer of Letter of Credit	32
Section 10.3.	Reduction of Letter of Credit	32
Section 10.4.	Liability of the Bank	32
Section 10.5.	Successors and Assigns	32
Section 10.6.	Notices	33
Section 10.7.	Amendment	33
Section 10.8.	Effect of Delay and Waivers	33
Section 10.9.	Counterparts	34
Section 10.10.	Severability	34
Section 10.11.	Cost of Collection	34
Section 10.12.	Set Off	34
Section 10.13.	Governing Law	34
Section 10.14.	References	34
Section 10.15.	Consent to Jurisdiction, Venue	34

**LETTER OF CREDIT, REIMBURSEMENT and  
GUARANTY AGREEMENT**

THIS AGREEMENT, dated as of March 1, 2004, by and among SPENCE ENGINEERING COMPANY, INC., a Delaware corporation (the "Borrower"), CIRCOR INTERNATIONAL, INC., a Delaware corporation (the "Guarantor"), and SUNTRUST BANK, a state banking association organized and existing under the laws of the state of Georgia with its principal offices located in Atlanta, Georgia (the "Bank");

WITNESSETH:

**WHEREAS**, the Village of Walden Industrial Development Agency (the "Issuer"), has previously issued its Industrial Development Revenue Refunding Bonds (Spence Engineering Company, Inc. Project), Series 1994, in the original aggregate principal amount of \$7,500,000 (the "Bonds") pursuant to a Trust Indenture, dated as of June 1, 1994 (as the same may be supplemented pursuant to its terms, the "Indenture"), between the Issuer and U.S. Bank National Association, as successor in interest to The First National Bank of Boston, as trustee (together with any successors in trust, the "Trustee"); and

**WHEREAS**, pursuant to a Sale Agreement, dated as June 1, 1994 (as the same may be amended pursuant to its terms and the terms of the Indenture, the "Sale Agreement"), between the Issuer and the Borrower, the Issuer loaned the proceeds of the Bonds to the Borrower (i) to refund, in whole or in part, the acquisition, construction and installation of certain facilities more fully described in the Sale Agreement (the "Project"), and (ii) to pay certain costs of issuing the Bonds; and

**WHEREAS**, Wachovia Bank, National Association issued an irrevocable, direct-pay letter of credit (as the same has been or may be amended from time to time, the "Wachovia Letter of Credit") to serve as additional security for payment of the Bonds; and

**WHEREAS**, under the terms of the Indenture and upon the meeting of certain requirements therein, the Borrower may substitute the Wachovia Letter of Credit with an Alternate Credit Facility (as defined in the Indenture); and

**WHEREAS**, the Bank is willing to issue a Letter of Credit to replace the Wachovia Letter of Credit subject to the following terms and conditions (the "Letter of Credit");

**WHEREAS**, the Letter of Credit will qualify as an Alternate Credit Facility under the Indenture;

**NOW, THEREFORE**, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I  
DEFINITIONS

All words and terms defined in Article I of the Sale Agreement shall have the same meanings in this Agreement, unless other-wise specifically defined herein. The terms defined in this Article I have, for all purposes of this Agreement, the meanings specified hereinabove or in this Article, unless defined elsewhere herein or the context clearly requires otherwise.

“Affiliate” means any person, corporation, association or other business entity which directly or indirectly controls, or is controlled by, or is under common control with the Borrower or the Guarantor.

“Agreement” shall mean this Letter of Credit, Reimbursement and Guaranty Agreement, as the same may from time to time be amended, modified or supplemented in accordance with the terms hereof.

“Alternate Credit Facility” means any irrevocable direct pay letter of credit, insurance policy or similar credit enhancement or support facility for the benefit of the Trustee, the terms of which Alternate Credit Facility shall in all respects material to the registered owners of the Bonds be the same (except for the term set forth in such Alternate Credit Facility) as those of the Letter of Credit.

“Bankruptcy Code” means 11 U.S.C. § 101 et seq., as amended.

“Bondholder” or “Bondholders” means the initial and any future registered owners of the Bond or Bonds as registered on the books and records of the Bond Registrar pursuant to Section 204 of the Indenture.

“Bond Documents” means, collectively, the Sale Agreement, the Note, the Remarketing Agreement, the Tender Agency Agreement, the Indenture, the Security Instruments and the Bonds, as the same may be amended, modified or supplemented from time to time in accordance with their respective terms.

“Borrower” means Spence Engineering Company, Inc., a Delaware corporation.

“Capital Expenditures” means, for any period, expenditures (including, without limitation, the aggregate amount of Capital Lease Obligations incurred during such period) made by the Guarantor, the Borrower or any of their Subsidiaries to acquire or construct fixed assets, plant and equipment (including renewals, improvements and replacements, but excluding repairs) during such period computed in accordance with GAAP

“Capital Lease Obligations” of any Person shall mean all obligations of such Person to pay rent or other amounts under any lease (or other arrangement conveying the right to use) Property obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Cash and Cash Equivalents” means as to any Person at a particular date, the aggregate amount of all items categorized as cash and cash equivalents on the balance sheet of such Person, as determined in accordance with GAAP.

“Consistent Basis” means, in reference to the application of GAAP, that the accounting principles observed in the period referred to are comparable in all material respects to those applied in the preceding period, except as to any changes consented to by the Bank.

“Consolidated Net Income” means the consolidated gross revenues of the Guarantor and the Borrower and the Subsidiaries of each for such period less all expenses and other proper charges for such period (including taxes on or measured by income) determined in accordance with GAAP.

“Consolidated Net Worth” of the Guarantor and the Borrower and the Subsidiaries of each shall mean at any time as of which the amount thereof is to be determined, the sum of the Net Worth of such Persons.

“Consolidated Subsidiaries” means the Subsidiaries of the Guarantor included in the audited consolidated financial statements of the Guarantor from time to time. For purposes of the representation contained in Subsection 2.3 hereof.

“Consultant” means any third-party architect or engineer satisfactory to the Bank.

“Credit Agreement” means the Credit Agreement, dated as of October 18, 1999, among CIRCOR International, Inc., ING (U.S.) LLC as Agent, Bank Boston, N.A. as Syndication Agent and the Bank as Documentation Agent, as now or hereafter amended.

“Current Assets” means Cash and Cash Equivalents and all other assets or resources of a Person which are expected to be realized in cash, sold in the ordinary course of business, or consumed within one year, all determined in accordance with GAAP.

“Current Liabilities” means the amount of all liabilities of a Person which by their terms are payable within one year (including all indebtedness payable on demand or maturing not more than one year from the date of computation and the current portion of long-term debt), all determined in accordance with GAAP.

“Debt Service” means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all payments of principal of Indebtedness (including, without limitation, the principal component of any payments in respect of Capital Lease Obligations) scheduled to be made during such period plus (b) all Interest Expense for such period.

“Default” means an event or condition the occurrence of which would, with the lapse of time or the giving of notice, or both, become an Event of Default.

“Distribution” in respect of any corporation, means and includes: (i) the payment of any dividends or other distributions on capital stock of the corporation (except distributions in such stock) and (ii) the redemption or acquisition of its Securities unless made contemporaneously from the net proceeds of the sale of its Securities.

“EBITDA” shall mean, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following:

(a) Net Income (calculated before taxes, Interest Expense, Specified Restructuring Charges, extraordinary or unusual items and income or loss attributable to the equity in Affiliates) for such period, plus

(b) depreciation and amortization (to the extent deducted in determining Net Income) for such period.

“Environmental Laws” means all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidances, orders and consent decrees relating to health, safety and environmental matters, including, but not limited to, the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation and Liability Act of 1980; the Toxic Substances Control Act, as amended; the Clean Water Act; the River and Harbor Act; the Water Pollution Control Act; the Marine Protection Research and Sanctuaries Act; the Deep Water Port Act; the Safe Drinking Water Act; the Superfund Amendments and Reauthorization Act of 1986; the Federal Insecticide, Fungicide and Rodenticide Act; the Mineral Lands and Leasing Act; the Surface Mining Control and Reclamation Act; state and federal superlien and environmental cleanup programs and laws; and U.S. Department of Transportation regulations.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, including any rules and regulations promulgated thereunder.

“ERISA Affiliate” means a Person under common control with the Guarantor within the meaning of Section 414(c) of the Internal Revenue Code of 1986, as amended, or Section 4001(b) of ERISA.

“Event of Default” means an Event of Default as defined in Section 9.1 hereof.

“Expiration Date” means March 1, 2005, the stated expiration date of the Letter of Credit, as such date has been and may be extended in accordance with the terms of Section 4.10 hereof.

“Fixed Charges Coverage Ratio” means, as at any date, the ratio of (a) (x) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date minus (y) Capital Expenditures made during such period to (b) Debt Service for such period.

“GAAP” means those principles of accounting set forth in pronouncements of the Financial Accounting Standards Board and its predecessors or pronouncements of the American Institute of Certified Public Accountants or those principles of accounting which have other

substantial authoritative support and are applicable in the circumstances as of the date of application, as such principles are from time to time supplemented or amended. As to the provisions of this Agreement, the applicable GAAP shall be determined as set forth in the Credit Agreement.

“Guarantor” means CIRCOR International, Inc., a Delaware corporation.

“Hedging Agreements” shall mean interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts, commodity agreements and other similar agreements or arrangements designed to protect against fluctuations in interest rates, currency values or commodity values, in each case to which any Person is a party.

“Immaterial Subsidiary” means, as at any date, any Subsidiary of the Guarantor that the Guarantor shall theretofore have designated as an “Immaterial Subsidiary” in a notice to the Bank, provided that:

(a) the following shall be true:

(x) the aggregate assets of all such Subsidiaries (calculated both on a book value basis and a fair market value basis) does not exceed 10% of the aggregate assets (calculated on such respective bases) of the Guarantor and its Subsidiaries as of the most recent fiscal quarter-end of the Guarantor; and

(y) the aggregate EBITDA of all such Subsidiaries for the period of four consecutive fiscal quarters most recently ended prior to such date does not exceed 10% of the consolidated EBITDA of the Guarantor and its Subsidiaries for such period; and

(b) the Guarantor may from time to time, by notice to the Bank, cause any Subsidiary that it had theretofore designated as an “Immaterial Subsidiary” to be no longer treated as an “Immaterial Subsidiary”

“Indebtedness” means, for any Person: (a) obligations created, issued or incurred by such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of Property to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of Property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts payable are payable within 90 days of the date the respective goods are delivered or the respective services are rendered; (c) Indebtedness of others secured by a Lien on the Property of such Person, whether or not the respective indebtedness so secured has been assumed by such Person; (d) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by lenders and other financial institutions for account of such Person; (e) Capital Lease Obligations of such Person; and (f) Indebtedness of others Guaranteed by such Person.

“Interest Coverage Ratio” means, as at any date, the ratio of (a) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date to (b) Interest Expense for such period.

“Interest Expense” means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all interest in respect of Indebtedness (including, without limitation, the interest component of any payments in respect of Capital Lease Obligations) accrued or capitalized during such period (whether or not actually paid during such period) plus (b) the net amount payable (or minus the net amount receivable) under Interest Rate Protection Agreements during such period (whether or not actually paid or received during such period).

“Interest Rate Protection Agreement” means, for any Person, an interest rate swap, cap or collar agreement or similar arrangement between such Person and one or more financial institutions providing for the transfer of mitigation of interest risks either generally or under specific contingencies.

“Leverage Ratio” shall mean, as at any date, the ratio of the following: (a) the aggregate amount of Indebtedness of the Guarantor and its Subsidiaries outstanding on such date, to EBITDA for the four consecutive fiscal quarters ended on or most recently prior to such date.

“Lien” means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and including, but not limited to, the security interest, security title or lien arising from a security agreement, mortgage, deed of trust, deed to secure debt, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. For the purpose of this Agreement, the Borrower or the Guarantor, respectively, shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

“Material Adverse Effect” means a material adverse effect on the business, operations or financial condition of the Guarantor and its Subsidiaries or if applicable, such other Person, taken as a whole.

“Money Borrowed” as applied to Indebtedness, means (i) Indebtedness for borrowed money; (ii) Indebtedness, whether or not in any such case the same was for borrowed money, (A) which is represented by notes payable or drafts accepted that evidence extensions of credit, (B) which constitutes obligations evidenced by bonds, debentures, notes or similar instruments, or (C) upon which interest charges are customarily paid (other than accounts payable) or that was issued or assumed as full or partial payment for Property; (iii) Indebtedness that constitutes a Capitalized Lease obligation; and (iv) Indebtedness under any guaranty of obligations that would constitute Indebtedness for Money Borrowed under clauses (i) through (iii) hereof.

“Net Income” means for any period, the net operating income of the Borrower, the Guarantor and their Subsidiaries for such period (determined on a consolidated basis in accordance with GAAP).

“Obligations” means all loans and all other advances, debts, liabilities, obligations, covenants and duties owing, arising, due or payable from the Borrower to the Bank of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, whether arising under this Agreement or any of the other Bond Documents or Security Instruments or otherwise, whether direct or indirect (including those acquired by assignment), absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorney’s fees and any other sums chargeable to the Borrower under any of the Bond Documents or Security Instruments.

“Officer’s Certificate” means the Certificate of the Chief Financial Officer or the Controller of the Borrower or the Guarantor, as the case shall be, as approved by the Bank.

“Other Agreements” means any and all agreements, instruments and documents (other than this Agreement and the Security Instruments), heretofore, now or hereafter executed by the Borrower or the Guarantor or the Subsidiaries of either or any of them and delivered to the Bank in respect to the transactions contemplated by this Agreement.

“Permitted Encumbrances” means and includes:

(a) liens for taxes and assessments not delinquent or which are being contested in good faith by appropriate proceedings and against which adequate reserves have been provided for on the books of the Guarantor or the Borrower, as applicable;

(b) worker’s, mechanic’s and materialmen’s liens and similar liens incurred in the ordinary course of business remaining undischarged or unstayed for not longer than 60 days following Borrower’s notice of the attachment thereof;

(c) attachments remaining undischarged or unstayed for not longer than 60 days from the making thereof;

(d) liens in respect of final judgments or awards remaining undischarged or unstayed for not longer than 60 days from the making thereof;

(e) liens in respect of pledges or deposits under worker’s compensation laws, liens to secure customs bonds, unemployment insurance or similar legislation and in respect of pledges or deposits to secure bids, tenders, contracts (other than contracts for the payment of money), leases or statutory obligations, or in connection with surety, appeal and similar bonds incidental to the conduct of litigation;

“Person” means an individual, partnership, corporation, trust, joint venture, unincorporated organization, association, or a government, or agency or political subdivision or instrumentality thereof.

“Plan” means a pension plan (other than a multiemployer pension plan as defined in Section 3(37) of ERISA) that is subject to Title IV of ERISA.

“Pledge Agreement” means the Pledge Agreement of even date herewith from the Borrower to the Bank.

“Prime Rate” means the interest rate publicly announced from time to time by the Bank to be its prime rate, which may not necessarily be its best lending rate. In the event the Bank shall abolish or abandon the practice of announcing its Prime Rate or should the same be unascertainable, the Bank shall designate a comparable reference rate which shall be deemed to be the Prime Rate under this Agreement.

“Prohibited Transaction” means any transaction set forth in Section 406 of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended from time to time.

“Project” means the manufacturing facility acquired, constructed and installed with the proceeds of the Prior Bonds, owned and operated by the Borrower in the Village of Walden, New York.

“Property” means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

“Reportable Event” means any of the events set forth in Section 4043(b) of ERISA other than those events for which the obligation to notify the Pension Benefit Guaranty Corporation (“PBGC”) has been waived under 29 C.F.R. Part 2615.

“Security” means shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

“Security Instruments” means, collectively, the Pledge Agreement and any and all Other Agreements.

“Solvent” means as to any Person, such Person (i) owns Property whose fair saleable value is greater than the amount required to pay all of such Person’s Indebtedness (including contingent debts), (ii) is able to pay all of its Indebtedness as such Indebtedness matures and (iii) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage.

“Spin-off” means the Spin-off, effective October 18, 1999, by Watts Industries, Inc. of certain oil and gas related subsidiaries, including the Borrower, to the Guarantor.

“Subsidiary” or “Subsidiaries” means, as to any Person, any corporation whether organized and existing under the laws of any state of the United States, including the District of Columbia and Puerto Rico, or under the laws of any foreign country, of which more than 50% of voting stock at any time is owned or controlled directly or indirectly by the Borrower or the Guarantor, as applicable.

“Tangible Net Worth” shall mean, as at any date for any Person, the sum for such Person and its Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following:

- (a) the amount of capital stock, plus

(b) the amount of surplus and retained earnings (or, in the case of a surplus or retained earnings deficit, minus the amount of such deficit), minus

(c) the sum of the following (without duplication of deductions in respect of items already deducted in arriving at surplus and retained earnings): cost of treasury shares and the book value of all assets which should be classified as intangibles but in any event including goodwill, minority interests, research and development costs, trademarks, trade names, copyrights, patents and franchises, unamortized debt discount and expense, all reserves and any write-up in the book value of assets (other than a Permitted Write-up (as defined in the Credit Agreement)) resulting from a revaluation thereof subsequent to June 30, 2003.

“Tender Advance” has the meaning assigned to that term in Section 4.3 of this Agreement.

“Tender Draft” has the meaning assigned to that term in the Letter of Credit.

“Termination Date” means the last day a drawing is available under the Letter of Credit.

“Trustee” means any Person or group of Persons at the time serving as corporate fiduciary under the Indenture.

“Uniform Customs and Practice” shall mean the Uniform Customs and Practice for Documentary Credits, 1994 Revision, ICC Publication No. 500.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE GUARANTOR

The Guarantor represents and warrants to the Bank (which representations and warranties shall survive the delivery of the documents mentioned herein and the issuance of the Letter of Credit) that:

Section 2.1. Incorporation. Each of the Guarantor and its Consolidated Subsidiaries is a corporation, partnership or joint venture, respectively, duly organized, existing and in good standing under the laws of its respective jurisdiction, except where the failure to be in good standing would not have a Material Adverse Effect and has the corporate or other power to own its respective properties and to carry on its respective business as now or at such future time being conducted, and is duly qualified as a foreign corporation or otherwise to do business in every jurisdiction in which the failure to be so qualified would have a Material Adverse Effect. On the date of the execution and delivery of this Agreement, the Guarantor has the respective Consolidated Subsidiaries shown on Exhibit B hereto, and no other Subsidiaries.

Section 2.2. Power and Authority; No Conflicts; Enforceability. It is duly authorized under all applicable provisions of law to execute, deliver and perform this Agreement and the Other Agreements to which it is a party, and all corporate action on its part required for the lawful execution, delivery and performance hereof and thereof has been duly taken; and this Agreement and the Other Agreements to which it is a party, upon the due execution and delivery hereof, will be the valid, binding and legal obligation of the Guarantor enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and to general principles of equity. Neither the execution of this Agreement, nor the fulfillment of or compliance with the respective provisions and terms hereof, will (A) conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a violation of or default under any applicable law, regulation, judgment, writ, order or decree to which the Guarantor or any Consolidated Subsidiary or any of their respective properties are subject, or the charter or bylaws of the Guarantor or any Consolidated Subsidiary, or any agreement or instrument to which the Guarantor or any Consolidated Subsidiary is now a party and (B) create any lien, charge or encumbrance upon any of the property or assets of the Guarantor or any Consolidated Subsidiary pursuant to the terms of any agreement or instrument to which the Guarantor or any Subsidiary is a party or by which they, or any of them, or any of their respective properties, are bound except pursuant to the Security Instruments.

Section 2.3. Financial Condition. The consolidated balance sheet of the Guarantor and its Consolidated Subsidiaries for the fiscal year ended as of December 31, 2002, and the fiscal quarters ended September 30, 2003, and December 31, 2003, and the related consolidated (pro forma) statements of operations, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity for the period, copies of which have been furnished to the Bank, are correct, complete and fairly present the financial condition of the Guarantor and its Consolidated Subsidiaries in all material respects as at the respective date of said balance sheets, and the results of its respective operations for each such period. The

Guarantor and its Consolidated Subsidiaries do not have any material direct or contingent liabilities as of the date of this Agreement which are not provided for or reflected in the balance sheets dated January 31, 2004, or referred to in notes thereto, or set forth in Exhibit B hereto. There has been no material adverse change in the business, properties or condition, financial or otherwise, of the Guarantor and its Consolidated Subsidiaries since January 31, 2004.

Section 2.4. Title to Property and Assets. It has good and marketable title to its Property, including the properties and assets reflected in the financial statements and notes thereto described in Section 2.3 hereof, except for such assets as have been disposed of since the date of said financial statements in the ordinary course of business or as are no longer useful in the conduct of its business, and all such properties and assets are free and clear of all material Liens, mortgages, pledges, encumbrances or charges of any kind except Liens reflected in the financial statements or Exhibit B hereto or permitted under Section 7.2 hereof.

Section 2.5. Litigation. There are no pending or, to the best of its knowledge, threatened material actions, suits or proceedings before any court, arbitrator or governmental or administrative body or agency which may materially adversely affect the properties, business or condition, financial or otherwise, of the Guarantor and its Consolidated Subsidiaries on a consolidated basis, except as disclosed in the financial statements and notes thereto described in Section 2.3 hereof or Exhibit B hereto.

Section 2.6. Taxes. It has filed all material tax returns required to be filed by it and all material taxes due with respect thereto have been paid, and except as described in Exhibit B hereto, no controversy in respect of a material amount of additional taxes, state, federal or foreign, of the Guarantor is pending, or, to the knowledge of the Guarantor, threatened. No federal taxes have been due or are currently due to be paid by the Guarantor as of the date hereof, and adequate reserves have been established for the payment of all taxes (other than federal) for periods ended subsequent to June 30, 2000.

Section 2.7. Trademarks, Franchises and Licenses. It owns, possesses, or has the right to use all necessary material patents, licenses, franchises, trademarks, trademark rights, trade names, trade name rights and copyrights to conduct business as now conducted, without known conflict with any patent, license, franchise, trademark, trade name, or copyright of any other Persons.

Section 2.8. No Default. It is not in default in the performance, observance or fulfillment of any of its material obligations, covenants or conditions contained in any agreement or instrument to which it is a party or by which it may be bound, the effect of which default would allow any Person to cause such obligation under the agreement or instrument to become due prior to its~ stated maturity.

Section 2.9. Governmental Authority. It has received the written approval of all federal, state, local and foreign governmental authorities, if any, necessary to carry out the terms of this Agreement, and no further governmental consents or approvals are required in the making or performance of this Agreement by it.

Section 2.10. ERISA. It has not incurred any material liability to the PBGC established under ERISA (or any successor thereto under ERISA) in connection with any Plan established or maintained by it or by any Person under common control with it (within the meaning of Section 414(c) of the Internal Revenue Code of 1986, as amended (the "Code"), or of Section 4001(b) of ERISA), or in which its employees are entitled to participate. No such Plan has incurred any material accumulated funding deficiency within the meaning of ERISA. No Reportable Event in connection with any such Plan has occurred or is continuing.

Section 2.11. Pollution and Environmental Control: Hazardous Substances. It has obtained all permits, licenses and other authorizations which are required under any Environmental Law, except to the extent that failure to have obtained any such permit, license or authorization will not have a Material Adverse Effect, and is in material compliance with, all federal, state, and local Environmental Laws and regulations relating, without limitation, to pollution, reclamation or protection of the environment, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous or toxic materials or wastes into air, water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants or hazardous or toxic substances, materials or wastes the failure to comply with which would have a Material Adverse Effect. Neither any Guarantor, nor to Guarantor's knowledge any previous owner of the Project Site, has disposed of any hazardous substances on any portion of the Project Site. As used in this subparagraph, "hazardous substances" shall have the meaning set forth in the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 6901, et. seq., and the regulations adopted pursuant to such act.

Section 2.12. Capital Structure. Exhibit B attached hereto and made a part hereof states the correct name of each of the Consolidated Subsidiaries of the Guarantor, the jurisdiction of organization or incorporation and the percentage of its voting stock owned by the Guarantor. The Guarantor has good title to all of the shares it purports to own of the stock of each Consolidated Subsidiary, free and clear in each case of any Lien other than Permitted Liens. All such shares have been duly issued and are fully paid and non-assessable.

Section 2.13. Solvent Financial Condition. It is now, and after giving effect to the transactions contemplated hereby, will be Solvent.

Section 2.14. Restrictions. It is not a party or subject to any contract, agreement, or charter or other corporate restriction, which Guarantor believes materially and adversely affects its business or the use or ownership of any of its Properties. The Guarantor is not a party or subject to any contract or agreement which restricts its right or ability to incur Indebtedness, other than as set forth on Exhibit B attached hereto, none of which prohibit the execution of or compliance with this Agreement by the Guarantor.

Section 2.15. Full Disclosure. The Financial Statements referred to in Section 2.3 above, do not, nor does this Agreement or the Bond Documents or any Other Agreement or written statement of the Guarantor to the Bank (including, without limitation, the Guarantor's filings, if any, with the Securities and Exchange Commission), taken as a whole, contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained therein or herein not misleading. There is no fact which the Guarantor has failed to

disclose to the Bank in writing which materially affects adversely or, so far as the Guarantor can now foresee, will materially affect adversely the Properties, business, prospects, profits, or condition (financial or otherwise) of the Guarantor or any of its Consolidated Subsidiaries or the ability of the Guarantor or the Borrower to perform this Agreement or the Bond Documents.

Section 2.16. Labor Relations. Except as described on Exhibit B attached hereto and made a part hereof, there are no material grievances, disputes or controversies with any union or any other organization of the Guarantor's employees, or threats of strikes, work stoppages or any asserted pending demands for collective bargaining by any union or organization which could have a Material Adverse Effect.

Section 2.17. Compliance With Laws. It has duly complied in all material respects with, and its Properties, business operations and leaseholds are in compliance in all material respects with, the provisions of all federal; state and local laws, rules and regulations applicable to the Guarantor, its Properties or the conduct of its business, including, without limitation, OSHA and all Environmental Laws, the failure to comply with which would have a Material Adverse Effect.

Section 2.18. Brokers. There are no claims for brokerage commissions, finder's fees or investment banking fees in connection with the transactions contemplated by this Agreement, except for fees owed to the Bank and its affiliates.

Section 2.19. Trade Relations. There exists no actual or threatened termination, cancellation or limitation of, or any modification or change in, the business relationship between the Guarantor and any customer or any group of customers whose purchases individually or in the aggregate are material to the business of the Guarantor, or with any material supplier, and there exists no present condition or state of facts or circumstances which would materially affect adversely the Guarantor or prevent the Guarantor from conducting such business after the consummation of the transaction contemplated by this Agreement in substantially the same manner in which it has heretofore been conducted.

Section 2.20. Investment Company Act. The Guarantor is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

Section 2.21. Survival of Representations and Warranties. It covenants, warrants and represents to the Bank that all representations and warranties of the Guarantor contained in this Agreement or any of the Bond Documents or Other Agreements shall be true at the time of its execution of this Agreement and, the Bond Documents or Other Agreements, and shall survive the execution, delivery and acceptance thereof by the Bank and the parties thereto and the closing of the transactions described therein or related thereto.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower represents and warrants to the Bank (which representations and warranties shall survive the delivery of the documents mentioned herein and the issuance of the Letter of Credit) as of the date of the issuance of the Letter of Credit:

Section 3.1. Incorporation. It is a corporation duly incorporated, existing and in good standing under the laws of the State of its incorporation, and has the corporate or other power to own its Property and to carry on its business as now being conducted.

Section 3.2. Power and Authority. It is duly authorized under all applicable provisions of law to execute, deliver and perform this Agreement and the Bond Documents, and all action, corporate or otherwise, as applicable, on its part required for the lawful execution, delivery and performance hereof has been duly taken; and this Agreement and the Bond Documents, upon the due execution and delivery hereof, will be its valid and binding obligation enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and to general principles of equity. Neither the execution of this Agreement nor the Bond Documents, nor the fulfillment of or compliance with their respective provisions and terms, will (a) conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a violation of or default under any applicable law, regulation, judgment, writ, order or decree to which it or any of its properties is subject, or its charter or by-laws, or any agreement or instrument to which it or any of its Subsidiaries is now a party or by which it or any of its Subsidiaries or any of their respective properties is bound or affected, or (b) create any lien, charge or encumbrance upon any of its or any of its Subsidiaries' property or assets pursuant to the terms of any agreement or instrument to which it or any of its Subsidiaries is a party or by which it or any of its Subsidiaries or any of their respective properties is bound except pursuant to the Security Instruments.

Section 3.3. Governmental Authority. It has received the written approval of all federal, state, local and foreign governmental authorities, if any, necessary to carry out the terms of this Agreement, and no further governmental consents or approvals are required in the making or performance of this Agreement and the Bond Documents.

Section 3.4. Project Site. The operation of the Project complies in all material respects with presently existing zoning and other land use restrictions affecting the Project Site, including without limitation, any restrictive covenants.

Section 3.5. Survival of Representations and Warranties. It covenants, warrants and represents to the Bank that all representations and warranties contained in this Agreement are true at the time of its execution of this Agreement and the representations contained in the Bond Documents or Other Agreements were true at the time made and are true at the time of execution of this Agreement except to the extent of changes resulting from transactions contemplated or permitted by this Agreement (including the Spin-Off) and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse and to the extent that such representations and warranties relate expressly to an earlier date, and all of such representations and warranties shall survive the execution, delivery and acceptance thereof by the Bank and the parties thereto and the closing of the transactions described therein or related thereto.

ARTICLE IV

TERMS OF LETTER OF CREDIT, REIMBURSEMENT, OTHER PAYMENTS  
AND GUARANTY

Section 4.1. Letter of Credit. The Bank agrees, on the terms and conditions hereinafter set forth, to issue and deliver the Letter of Credit in favor of the Trustee in substantially the form of Exhibit A attached hereto upon fulfillment of the applicable conditions set forth in Article VIII hereof. The Bank agrees that any and all payments under the Letter of Credit will be made with the Bank's own funds.

Section 4.2. Reimbursement and Other Payments. The Borrower shall pay to the Bank:

- (a) on or before 3:00 P.M. (Eastern time), but after the honoring of a draw by the Bank, on the date that any amount is drawn under the Letter of Credit, a sum equal to such amount so drawn under the Letter of Credit;
- (b) on demand, interest on any and all amounts remaining unpaid by the Borrower when due hereunder from the date such amounts become due until payment thereof in full, at a fluctuating interest rate per annum equal at all times to the lesser of (i) the Prime Rate plus two percent (2%) or (ii) the highest lawful rate permitted by applicable law;
- (c) on demand, any and all reasonable expenses incurred by the Bank in enforcing any rights under this Agreement and the Bond Documents; and
- (d) on demand all charges, commissions, costs and expenses set forth in Sections 4.4, 4.5 and 4.9 hereof.

Section 4.3. Tender Advances. (a) If the Bank shall make any payment of that portion of the purchase price corresponding to principal and interest of the Bonds drawn under the Letter of Credit pursuant to a Tender Draft and the conditions set forth in Section 8.3 all have been fulfilled, such payment shall constitute a tender advance made by the Bank to the Borrower on the date and in the amount of such payment (a "Tender Advance"); provided that if the conditions of said Section 8.3 have not been fulfilled, the amount so drawn pursuant to the Tender Draft shall be payable in accordance with the terms of Section 4.2(a) above. Notwithstanding any other provision hereof, the Borrower shall repay the unpaid amount of each Tender Advance, together with all unpaid interest thereon on the earlier to occur of (i) such date as Bonds purchased pursuant to a Tender Draft are resold as provided in paragraph 4.3(d) hereof, (ii) on the date 366 days following the date of such Tender Advance, or (iii) the Termination Date.

The Borrower may prepay the outstanding amount of any Tender Advance in whole or in part, together with accrued interest to the date of such prepayment on the date such amount is prepaid. The Borrower shall notify the Bank, prior to 11:00 A.M. (Eastern time), on the date of such prepayment of the amount to be prepaid.

(b) The Borrower shall pay interest on the unpaid amount of each Tender Advance from the date of such Tender Advance until such amount is paid in full, payable monthly, in arrears, on the first day of each month during the term of each Tender Advance and on the date such amount is paid in full, at a fluctuating interest rate per annum in effect from time to time equal to the Prime Rate, provided that the unpaid amount of any Tender Advance, which is not paid when due shall bear interest at the lesser of the Prime Rate plus two percent (2%) or the highest rate permitted by applicable law, payable on demand and on the date such amount is paid in full.

(c) Pursuant to the Pledge Agreement the Borrower has agreed that, in accordance with the terms of the Indenture, Bonds purchased with proceeds of any Tender Draft shall be delivered by the Tender Agent to the Bank or its designee to be held by the Bank or its designee in pledge as collateral securing the Borrower's payment obligations to the Bank hereunder. Bonds so delivered to the Bank or its designee shall be registered in the name of the Bank, or its designee, as pledgee of the Borrower, as provided for in Section 3 of the Pledge Agreement.

(d) Prior to or simultaneously with the resale of Pledged Bonds, the Borrower shall prepay or cause the Tender Agent to prepay as provided below the then outstanding Tender Advances (in the order in which they were made) by paying to the Bank an amount equal to the sum of (a) the amounts advanced by the Bank pursuant to the corresponding Tender Drafts relating to such Bonds, plus (b) the aggregate amount of accrued and unpaid interest on such Tender Advances. Such payment shall be applied by the Bank in reimbursement of such drawings (and as prepayment of Tender Advances resulting from such drawings in the manner described below), and, upon receipt by the Bank of a certificate completed and signed by the Trustee in substantially the form of Annex F to the Letter of Credit, the Borrower irrevocably authorizes the Bank to rely on such certificate and to reinstate the Letter of Credit in accordance therewith. Funds held by the Tender Agent as a result of sales of the Pledged Bonds by the Remarketing Agent shall be paid to the Bank by the Tender Agent to be applied to the amounts owing by the Borrower to the Bank pursuant to this paragraph (d). Upon payment to the Bank of the amount of such Tender Advance to be prepaid, together with accrued interest on such Tender Advance to the date of such prepayment on the amount to be prepaid, the principal amount outstanding of Tender Advances shall be reduced by the amount of such prepayment and interest shall cease to accrue on the amount prepaid.

Section 4.4. Commission and Fee. (a) The Borrower hereby agrees to pay to the Bank a non-refundable letter of credit fee for the period from and including the date of issuance until the Termination Date, computed at the rate of one and one-eighth percent (1.125%) per annum, calculated as a percentage of the stated amount of the Letter of Credit (as the same may be reduced from time to time but including, in any event, the principal amount of any Pledged Bonds) on the date of payment of such letter of credit fee. Amounts payable under this section shall be payable in advance, based on a 360-day year, actual number of days elapsed, in immediately available funds, on the date of issuance and quarterly thereafter on the first day of each March 1, June 1, September 1 and December 1.

(b) The Borrower shall pay to the Bank, upon each drawing under the Letter of Credit in accordance with its terms, a fee of \$150 per drawing.

(c) The Borrower shall pay to the Bank, upon transfer of the Letter of Credit in accordance with its terms, a transfer fee of \$1,000.

Section 4.5. Increased Costs. In the event of any change in any existing or future law, regulation, ruling or interpretation thereof affecting the Bank which shall either (a) impose, modify or make applicable any reserve, special deposit, capital requirement, assessment or similar requirement against the Letter of Credit or (b) impose on the Bank any other condition regarding the Letter of Credit, and the result of any event referred to in clause (a) or (b) above shall be to increase the cost (including a reasonable allocation of resources) or decrease the yield to the Bank of issuing or maintaining the Letter of Credit (which increase in cost shall be the result of the Bank's reasonable allocation of the aggregate of such cost increases or yield decreases resulting from such events), then, upon demand by the Bank, the Borrower shall immediately pay to the Bank, from time to time as specified by the Bank, additional amounts which shall be sufficient to compensate the Bank for such increased cost or decreased yield. A statement of charges submitted by the Bank, shall be conclusive, absent manifest error, as to the amount owed.

Section 4.6. Computation. All payments of interest, commission and other charges under this Agreement shall be computed on the per annum basis, based upon a year of 365 (or 366, as the case may be) days, and calculated for the actual number of days elapsed.

Section 4.7. Parent Procedure. All payments made by the Borrower under this Agreement shall be made to the Bank in lawful currency of the United States of America and in immediately available funds at the Bank's offices described at the beginning of this Agreement before 12:00 Noon, EST on the date when due, except for payments made in accordance with the terms of Section 4.2(a).

Section 4.8. Business Days. If the date for any payment hereunder falls on a day which is not a Business Day, then for all purposes of this Agreement the same shall be deemed to have fallen on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payments of interest or commission, as the case may be.

Section 4.9. Reimbursement of Expenses. The Borrower will pay all reasonable legal fees (computed without regard to any statutory presumption) incurred by the Bank in connection with the preparation, execution and delivery of this Agreement, the Letter of Credit, the Bond Documents, and all transactions contemplated hereby and thereby (including any amendments hereto or thereto or consents or waivers hereunder or thereunder) and will also pay all fees, charges or taxes for the recording or filing of Security Instruments. The Borrower will also pay for all reasonable legal expenses of the Bank in connection with the administration of the Letter of Credit, this Agreement and the Bond Documents. The Borrower will, upon request, promptly reimburse the Bank for all amounts expended, advanced or incurred by the Bank to collect or satisfy any obligation of the Borrower under this Agreement or any of the Bond Documents, or to enforce the rights of the Bank under this Agreement or any of the Bond Documents, which amounts will include, without limitation, all court costs, reasonable attorneys' fees, fees of auditors and accountants and investigation expenses incurred by the Bank in connection with any such matters.

Section 4.10. Expiration Date. The Letter of Credit will expire on its stated Expiration Date, unless the Bank notifies the Borrower in writing at least 120 days prior to the Expiration Date that the Bank will extend such applicable Expiration Date for an additional one-year period from the then applicable Expiration Date.

Section 4.11. Guaranty. (a) the Guarantor hereby absolutely and unconditionally guarantees, the full and timely payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Borrower now or hereafter existing under this Agreement or any of the Security Instruments, whether for principal, interest, fees, expenses or otherwise. The Guarantor further agrees to pay any and all expenses (including without limitation reasonable attorneys' fees and expenses) incurred by the Bank in enforcing or protecting its rights against the Guarantor under this Agreement or any of the Security Instruments.

(b) This is a guaranty of payment and not of collection, and the Guarantor expressly waives any right to require that any action be brought against the Borrower or any other guarantor or to require that resort be had to any security, whether held by or available to the Bank or to any other guaranty. If the Borrower shall default in payment of the principal, interest, or fees on or any other amount payable hereunder when and as the same shall become due, whether by acceleration, call for prepayment, or otherwise, or upon the occurrence of any other Event of Default hereunder, the Guarantor, upon demand by the Bank or its successors or assigns, will promptly and fully make such payments. All payments by the Guarantor shall be made in immediately available coin or currency of the United States of America which on the respective dates of payment thereof is legal tender for the payment of public and private debts. Each default in payment of the principal, interest, fees or any other amount payable hereunder, or the occurrence of any other Event of Default hereunder, shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises. The Bank, or its successors or assigns, in its sole discretion, shall have the right to proceed first and directly against the Guarantor and its successors and assigns.

(c) The Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the obligations of the Borrower under this Agreement or any requirement that the Bank protect, secure, perfect or insure any security interest or lien or any property subject hereto or to the Security Instruments or exhaust any right or take any action against the Borrower or any other Person.

(d) The Guarantor will not exercise any rights that it may acquire by way of subrogation under this Agreement, by any payment made hereunder or otherwise, until all the obligations of the Borrower shall have been paid or performed in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the obligations of the Borrower hereunder shall not have been paid or performed in full, such amount shall be held in trust for the benefit of the Bank and shall forthwith be paid to the Bank to be credited and applied upon the obligations of the Borrower hereunder, whether matured or unmatured, in accordance with the terms hereof.

(e) This guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the obligations of the Borrower hereunder is rescinded or is

otherwise returned by the Bank upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

Section 4.12. Obligations Absolute. The obligations of each of the Borrower and the Guarantor under this Agreement shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of the Letter of Credit, the Bonds, any of the other Bond Documents, any of the Security Instruments or any other agreement or instrument related thereto;
- (b) any amendment or waiver of or any consent to departure from the terms of the Letter of Credit, the Bonds, any of the other Bond Documents, any of the Security Instruments or any other agreement or instrument related thereto;
- (c) the existence of any claim, setoff, defense or other right which any of the Borrower, the Guarantor or the Issuer may have at any time against the Trustee, any beneficiary or any transferee of the Letter of Credit (or any Person for whom the Trustee, any such beneficiary or any such transferee may be acting), the Bank or any other Person, whether in connection with this Agreement, the other Security Instruments, the Letter of Credit, the Bond Documents, the Project or any unrelated transaction;
- (d) any statement, draft or other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect, or any statement therein being untrue or inaccurate in any respect whatsoever;
- (e) the surrender, exchange or impairment of any security for the performance or observance of any of the terms of this Agreement; or
- (f) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower or a Guarantor, except subject to the qualification that obligations may be reinstated upon bankruptcy, notwithstanding payment in full of the Borrower's obligations to the Bank.

Notwithstanding the absolute obligations of the Borrower and the Guarantor as provided above, the Bank shall be liable to the Borrower and the Guarantor as provided in Section 10.4 hereof.

Section 4.13. Waiver of Guarantor's Claims. The Guarantor hereby waives to the fullest extent possible as and against the Borrower and its assets any and all rights, whether at law, in equity, by agreement or otherwise, to subrogation, indemnity, reimbursement, contribution, or any other similar claim, cause of action or remedy that otherwise would arise out of the Guarantor's performance of its obligations to the Bank under this Agreement. The preceding waiver is intended by both the Guarantor and the Bank to be for the benefit of the Borrower, and the waiver, until the obligations are satisfied in full and the Bank has no further liability under this Agreement or the Letter of Credit, shall be enforceable by the Borrower or any of its successors or assigns as an absolute defense to any action by the Guarantor against the Borrower or its assets which arises out of the Guarantor's having made any payment to the Bank with respect to any of the Borrower's liabilities guaranteed hereunder.

ARTICLE V  
SECURITY; INSURANCE

Section 5.1. Security. As security for the full and timely payment and performance by the Borrower and the Guarantor of their respective obligations hereunder, the Borrower shall on the date hereof deliver the Pledge Agreement to the Bank.

Section 5.2. Casualty and Liability Insurance Required. The Borrower will keep the Project and its Properties continuously insured against such risks as are customarily insured against by businesses of like size and type engaged in the same or similar operations (other than business interruption insurance) including, without limiting the generality of any other covenant contained herein or in the Bond Documents, casualty insurance and general comprehensive liability insurance against claims for bodily injury, death or property damage; provided, however, that the insurance so required may be provided by blanket policies now or hereafter maintained by the Borrower or the Guarantor.

Section 5.3. Notice of Casualty or Taking. In case of any material damage to or destruction of all or any part of the Project, the Borrower shall give prompt notice thereof to the Bank. In case of a taking or proposed taking of all or any material part of the Project or any right therein by Eminent Domain, the Borrower shall give prompt notice thereof to the Bank. Each such notice shall describe generally the nature and extent of such damage, destruction, taking, loss, proceeding or negotiations.

## ARTICLE VI

### AFFIRMATIVE COVENANTS

Until all the Obligations to be performed and paid shall have been performed and paid in full, and for so long as the Letter of Credit shall be outstanding, unless the Bank shall otherwise consent in writing, the Borrower and the Guarantor will perform and observe all covenants and agreements contained on its respective part in this Article VI.

#### Section 6.1. Financial Reports and Other Data and Information.

(a) Quarterly Statements. Within forty-five (45) days after the end of each fiscal quarter, a balance sheet of the Guarantor and its Consolidated Subsidiaries at the end of that period and an income statement for that period and for the portion of the fiscal year ending with such period on a consolidated and consolidating basis, setting forth in comparative form the figures for the same period of the preceding fiscal year, and certified by the Chief Financial Officer or Controller of the Guarantor as complete and correct in all material respects and prepared in accordance with GAAP, except without footnotes and subject to normal year-end audit adjustments.

(b) Annual Statements. Within ninety (90) days after the end of each fiscal year, a detailed audited financial report of the Guarantor and its Consolidated Subsidiaries on a consolidated and consolidating basis, containing a balance sheet at the end of that period and an income statement and statement of cash flows for that period, setting forth in comparative form the figures for the preceding fiscal year, and containing an unqualified opinion of independent certified public accountants acceptable to the Bank that the financial statements were prepared in accordance with GAAP, and that the examination in connection with the financial statements was made in accordance with generally accepted auditing standards and accordingly included tests of the accounting records and other auditing procedures that were considered necessary in the circumstances.

(c) SEC and Other Reports: Orders, Judgments, Etc. Promptly upon its becoming available, one copy of each regular or periodic report, registration statement or prospectus filed by the Guarantor with any securities exchange or the Securities and Exchange Commission or any successor agency, and of any material order, judgment, decree, decision or ruling issued by any governmental authority in any proceeding to which the Guarantor is a party;

(d) Accountants' Statements. Within the period provided in paragraph (b) above, a letter of the accountants who render the opinion on the financial statements, stating that they reviewed this Agreement and that in performing the examination necessary to render an opinion on the annual financial statements they obtained no knowledge of any such Default or Event of Default resulting from the Guarantor's failure to observe the financial ratios under Sections 7.5 through 7.8, or, if the accountants have knowledge of a Default or Event of Default, a statement specifying to

the best of their knowledge the nature and period of existence of the Default or Event of Default;

(e) Certificates. At the time of the delivery of the financial statements provided for in Section 6.1(a) and (b), an Officers' Certificate of the Guarantor to the effect that to the best of his knowledge, no Default or Event of Default has occurred and is continuing;

(f) Notice of Default or Litigation. Promptly, and in any event within three Business Days after the Chief Financial Officer or Controller of the Guarantor obtains knowledge thereof, notice of (1) the occurrence of any event which constitutes a Default or Event of Default, (2) any litigation or governmental proceeding pending against the Guarantor which is likely to materially and adversely affect the business, operations, property, assets, condition (financial or otherwise) or prospects of the Guarantor and its Subsidiaries on a consolidated basis;

(g) Environmental Matters. Promptly upon obtaining knowledge thereof, notice of any facts or circumstances known to the Borrower that the Guarantor reasonably believes is likely to form the basis for the assertion of any material claim against the Guarantor relating to environmental matters including, but not limited to, any claim arising from past or present environmental practices asserted under CERCLA, RCRA, or any other federal, state or local environmental statute;

(h) Other Information. From time to time, such other information or documents (financial or otherwise) as the Bank may reasonably request.

Section 6.2. Books, Records and Inspections. The Borrower and the Guarantor will keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of law shall be made of all dealings and transactions in relation to their businesses and activities. The Borrower and the Guarantor will permit officers and designated representatives of the Bank to visit and inspect, under guidance of officers of the Borrower and the Guarantor as applicable, any of the properties of the Borrower and the Guarantor and to examine the books of account of the Borrower and the Guarantor and discuss the affairs, finances and accounts of the Borrower and the Guarantor with, and be advised as to the same by, its and their officers, as applicable, all at such reasonable times and intervals and to such reasonable extent as the Bank may request.

Section 6.3. Maintenance of Property, Insurance. Exhibit D sets forth a true and complete listing of all material insurance maintained by the Guarantor and the Borrower as of the date hereof, with the amounts insured on the date hereof set forth therein. Each of the Borrower and the Guarantor shall (i) keep all property useful and necessary in their business in good working order and condition, except for property which has become obsolete or is no longer useful, (ii) maintain with financially sound and reputable insurance companies insurance which provides substantially the same (or greater) coverage and, as to the Borrower, against at least such risks as are described in Exhibit D, and (iii) furnish to the Bank, upon written request, full information as to the insurance carried.

Section 6.4. Corporate Franchises. The Borrower and the Guarantor will do or cause to be done, all things necessary to preserve and keep in full force and effect their existence and their material rights, franchises, licenses and patents; provided, however, that nothing in this Section 6.4 shall prevent the withdrawal by the Borrower or the Guarantor of any qualification as a foreign corporation in any jurisdiction where such withdrawal could not have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower or the Guarantor and nothing in this Section 6.4 shall prevent the merger of the Borrower into the Guarantor or into a Consolidated Subsidiary of the Guarantor.

Section 6.5. Compliance with Statutes, etc. The Borrower and the Guarantor will comply with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of their businesses and their ownership of property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls), except such noncompliance as could not, in the aggregate, have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower and the Guarantor or of the Borrower and the Guarantor taken as a whole.

Section 6.6. ERISA. As soon as possible and in any event within 10 days after the Borrower or the Guarantor knows that a Reportable Event has occurred with respect to a Plan established or maintained by the Borrower, the Guarantor or any ERISA Affiliate, that a material accumulated funding deficiency has been incurred or an application is to be or has been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standard (including any required installment payments) or an extension of any amortization period under Section 412 of the Code with respect to such a Plan, that a Plan has been or will be terminated, reorganized, petitioned or declared insolvent under Title IV of ERISA in a manner that has a Material Adverse Effect, that such a Plan has an Unfunded Current Liability within the meaning of Title IV of ERISA giving rise to a lien under ERISA, that proceedings will be or have been instituted to terminate such a Plan under circumstances that will have a Material Adverse Effect, or that the Borrower or the Guarantor or an ERISA Affiliate will incur any material liability to or on account of such a Plan under Section 4062, 4063 or 4064, or which is a multiemployer plan under Section 515, 4201 or 4203 of ERISA, the Borrower and the Guarantor will deliver to the Bank a certificate of a financial officer thereof, setting forth details as to such occurrence and action, if any, which the Borrower, the Guarantor or ERISA Affiliate is required or proposes to take, together with any notices required or proposed to be given to or filed with or by the Borrower, the Guarantor, the ERISA Affiliate, the PBGC, a Plan participant or the Plan administrator with respect thereto. The Borrower and the Guarantor will deliver to the Bank a complete copy of the annual report (Form 5500) of each Plan required to be filed with the Internal Revenue Service or the PBGC, given to Plan participants or received by either the Borrower or the Guarantor.

Section 6.7. Performance of Obligations. The Borrower and the Guarantor will perform all of their obligations under the terms of each mortgage, indenture, security agreement and other agreement by which they are bound, except such non-performances as could not in the aggregate, have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower and the Guarantor or of the Borrower and the Guarantor taken as a whole.

Section 6.8. Taxes and Liens. The Borrower and the Guarantor will promptly pay, or cause to be paid, all material taxes, assessments or other governmental charges which may lawfully be levied or assessed upon the income or profits of Borrower or the Guarantor or upon any Property, real, personal or mixed, belonging to Borrower or the Guarantor, or upon any part thereof, and also any lawful claims for labor, material and supplies which, if unpaid, might become a lien or charge against any such property; provided, however, neither Borrower nor the Guarantor shall be required to pay any such tax, assessment, charge, levy or claim so long as the validity thereof shall be actively contested in good faith by proper proceedings and, against which the Borrower or the Guarantor, as the case may be, shall have established reserves which are in amounts satisfactory to the Borrower's or the Guarantor's, as the case may be, independent certified public accountants.

Section 6.9. Payment of Obligations. The Borrower and the Guarantor will pay, when due, all its material obligations and liabilities, except where the same (other than Indebtedness) are being contested in good faith by appropriate proceedings diligently prosecuted and appropriate reserves for the accrual of same are maintained and, in the case of judgments, enforcement thereof has been stayed pending such contest.

Section 6.10. Environmental Matters. The Borrower and the Guarantor will obtain and maintain all licenses, permits, and approvals required in connection with the Project with respect to Hazardous Materials (which shall mean all materials defined as "hazardous substances," "hazardous waste" or "solid waste" in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Resource Conservation and Recovery Act or any similar environmental statute) and the Borrower or the Guarantor, as applicable, will remain in full compliance with such licenses, permits and approvals, except to the extent that failure to so comply would not have a Material Adverse Effect. The Borrower and the Guarantor will give the Bank copies of any citations, orders, notices or other communications received with respect to violations or alleged violations of any environmental laws in connection with the Project if such violation or alleged violation is likely to have a Material Adverse Effect. The Borrower and the Guarantor shall indemnify and hold the Bank and its directors, officers, shareholders and employees harmless from and against any and all damages, penalties, fines, claims, liens, suits, liabilities, costs (including clean-up costs) judgments and expenses (including attorneys', consultants' or experts' fees and expenses) of every kind and nature suffered by or asserted against the Bank as a direct or indirect result of any warranty or representation made by the Borrower and the Guarantor in this Section 6.10 being false or untrue in any material respect or any requirement under any environmental law, which requires the elimination or removal of any Hazardous Materials at the Project Site by the Bank, the Borrower, the Guarantor or any transferee of the Borrower, the Guarantor or the Bank, except to the extent that any such damages, penalties, fines, claims, liens, suits, liabilities, costs, judgments, or expenses result directly or indirectly from the actions of the Bank or any of its directors, officers, shareholders or employees.

ARTICLE VII  
NEGATIVE COVENANTS

Until all the Obligations to be performed and paid shall have been performed and paid in full, and for so long as the Letter of Credit shall be outstanding, unless the Bank shall otherwise consent in writing, the Borrower and the Guarantor covenant and agree as follows:

Section 7.1. Negative Pledge; Liens. The Borrower and the Guarantor will not create, incur, assume or suffer to exist any Lien upon or with respect to any property or assets (real or personal, tangible or intangible) constituting the Project or sell any such property or assets subject to an understanding or agreement, contingent or otherwise, to repurchase such property or assets (including sales of accounts receivable with recourse to the Borrower or the Guarantor), or assign any right to receive income or permit the filing of any financing statement under the Uniform Commercial Code of any state or any other similar notice of Lien under any similar recording or notice statute; provided that the provisions of this Section 7.1 shall not prevent the creation, incurrence, assumption or existence of:

- (i) Liens in favor of the Bank;
- (ii) Liens for taxes not yet due, or Liens for taxes being contested in good faith and by appropriate proceedings for which adequate reserves have been established;
- (iii) Except as hereinafter set forth, Liens in respect of property or assets of the Borrower or the Guarantor imposed by law, which were incurred in the ordinary course of business, such as carriers', warehousemen's and mechanics' liens and other similar Liens arising in the ordinary course of business, not to exceed \$10,000,000 as to the Borrower, the Guarantor or their subsidiaries in the aggregate, and (x) which do not in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of the Borrower or the Guarantor or (y) which are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien;
- (iv) Liens in existence on the date hereof which are listed, and the property subject thereto described in Exhibit C, with an indication therein that such Liens are "Permitted Liens" hereunder, provided that if in Exhibit C any Lien is listed as being a Permitted Lien only for a designated time period, such Lien shall cease to be a Permitted Lien after the expiration of such time period;
- (v) Permitted Encumbrances;
- (vi) Liens created pursuant to the Security Instruments;
- (vii) Utility deposits and pledges or deposits in connection with worker's compensation, unemployment insurance and other social security legislation; and

(viii) Liens permitted under the Credit Agreement.

Section 7.2. Consolidation or Merger. The Guarantor will not enter into any transaction of merger or consolidation, except for mergers in which the Guarantor is the surviving entity.

Section 7.3. Sale of Assets, Dissolution, Etc. The Guarantor will not, nor will it permit any of its Subsidiaries to, enter into any transaction in violation of Section 9.05(c) of the Credit Agreement, as amended from time to time.

Section 7.4. Indebtedness, Loans and Investments. The Guarantor shall not, nor will it permit any of its Subsidiaries to, enter into any transaction in violation of Sections 9.07 and 9.08 of the Credit Agreement, as amended from time to time.

Section 7.5. Leverage Ratio. The Guarantor will maintain, as of the end of each fiscal quarter of the Guarantor, commencing with the fiscal quarter ending December 30, 2003, a Leverage Ratio of not greater than 3.0 to 1.0.

Section 7.6. Interest Coverage Ratio. The Guarantor will have, as of the end of each fiscal quarter of the Guarantor, commencing with the fiscal quarter ending December 30, 2003, an Interest Coverage Ratio of not less than 2.5 to 1.0.

Section 7.7. Fixed Charges Coverage Ratio. The Guarantor will not permit the Fixed Charges Coverage Ratio as of the last day of any fiscal quarter of the Guarantor to be less than 1.4 to 1.0.

Section 7.8. Tangible Net Worth. The Guarantor will not permit Tangible Net Worth to be less than \$128,145,000 at June 30, 2003, or such higher amount as hereinafter set forth. The Tangible Net Worth of the Guarantor shall increase quarterly, beginning with the fiscal quarter ended June 30, 2003, by an amount equal to 50% of the Consolidated Net Income (if positive) of the Guarantor for such fiscal quarter.

ARTICLE VIII

CONDITIONS TO ISSUANCE OF LETTER OF CREDIT

Section 8.1. Conditions of Issuance. On or prior to the date of issuance of the Letter of Credit, the Borrower and the Guarantor shall have furnished to the Bank, in form satisfactory to the Bank, the following:

- (a) two executed counterparts of this Agreement and executed counterparts of each of the Security Instruments;
- (b) executed counterparts of each of the Bond Documents (except for the Bonds, as to which a specimen copy may be furnished);
- (c) evidence of compliance with the insurance requirements contained in Article VI hereof;
- (d) opinion(s) of counsel for the Borrower and the Guarantor, dated the date hereof, addressed to, and substantially in the form attached hereto as Exhibit E and otherwise in form and substance acceptable to, the Bank;
- (e) certificates of the Borrower and the Guarantor, as applicable, including references to (i) Articles of Incorporation, By-laws and other charter documents as applicable, (ii) resolutions of the Board of Directors, authorizing the execution, delivery and performance of the appropriate Bond Documents, this Agreement and the Security Instruments to which the Borrower or the Guarantor, as the case may be, is a party, (iii) incumbency and specimen signatures of officers, and (iv) such other matters as the Bank may require;
- (f) (a) copies of the Articles of Incorporation, By-laws or other charter documents, as applicable, of the Guarantor, certified as true and correct by an authorized officer as of the date of issuance of the Bonds; and (b) as to any corporations, certificates dated no earlier than 20 days prior to the date of issuance of the Alternate Credit Facility of the Secretary of State of the applicable states as to the good standing of the Borrower and the Guarantor;
- (g) an opinion of Bond Counsel, in substantially the form of Exhibit F hereto in form and substance satisfactory to the Bank and its counsel, and as to such other matters as the Bank may reasonably request;
- (h) copies of all governmental approvals required in connection with this transaction, including the resolution of the Issuer authorizing the authentication and issuance of the Bonds;
- (i) evidence of payment to the Bank of the commission pursuant to Section 4.4 of this Agreement;

(j) such other documents, instruments and certifications as the Bank may reasonably required.

Section 8.2. Additional Conditions Precedent to Issuance of the Letter of Credit. (a) The obligation of the Bank to issue the Letter of Credit shall be subject to the further conditions precedent that on the date of issuance the following statements shall be true and the Bank shall have received a certificate signed by the Chief Financial Officer or Controller of the Borrower and by the Guarantor, dated the date of issuance, stating that:

(i) The representations and warranties contained in Article II and Article III of this Agreement, Section 5 of the Pledge Agreement Section 2.2 of the Sale Agreement are correct on and as of the date of issuance of the Letter of Credit as though made on and as of such date; and

(ii) No event has occurred or would result from the issuance of the Letter of Credit, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both;

and (b) there shall have been no introduction of or change in, or in the interpretation of, any law or regulation that would make it unlawful or unduly burdensome for the Bank to issue the Letter of Credit, no outbreak or escalation of hostilities or other calamity or crisis, no suspension of or material limitation on trading on the New York Stock Exchange or any other national securities exchange, no declaration of a general banking moratorium by United States or Georgia banking authorities, and no establishment of any new restrictions on transactions in securities or on banks materially affecting the free market for securities or the extension of credit by banks.

Section 8.3. Conditions Precedent to Each Tender Advance. Each payment made by the Bank under the Letter of Credit pursuant to a Tender Draft shall constitute a Tender Advance hereunder only if on the date of such payment no event has occurred or would result from such Tender Advance, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

Unless the Borrower or the Guarantor shall have previously advised the Bank in writing or the Bank has actual knowledge that the above statement is no longer true, the Borrower and the Guarantor shall be deemed to have represented and warranted, on the date of payment by the Bank under the Letter of Credit pursuant to a Tender Draft, that on the date of such payment the above statement is true and correct.

ARTICLE IX

DEFAULT

Section 9.1. Events of Default. Each of the following shall constitute an Event of Default under this Agreement, whereupon all obligations, whether then owing or contingently owing, will, at the option of the Bank or its successors or assigns, immediately become due and payable by the Borrower without presentation, demand, protest or notice of any kind, all of which are hereby expressly waived, and the Borrower will pay the reasonable attorneys' fees incurred by the Bank, or its successors or assigns, in connection with such Event of Default:

(a) Failure of the Borrower or the Guarantor to pay within five (5) days of the date when due any payment of principal, interest, commission, charge or expense referred to in Article IV hereof; or

(b) The occurrence of an "Event of Default" under any of the Security Instruments or any of the Bond Documents; or

(c) The Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) shall default in the payment when due of any principal of or interest on any of its other Indebtedness of the Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) having a principal amount, individually or in the aggregate, in excess of \$10,000,000 or in the payment when due of any amount under any Interest Rate Protection Agreement; or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Indebtedness or any event specified in any Interest Rate Protection Agreement shall occur if the effect of such event is to cause, or (with the giving of any notice or the lapse of time or both) to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, such Indebtedness to become due, or to be prepaid in full (whether by redemption, purchase, offer to purchase or otherwise), prior to its stated maturity or, in the case of an Interest Rate Protection Agreement, to permit the payments owing under such Interest Rate Protection Agreement to be liquidated; or

(d) If any representation, warranty, certification or statement made by the Borrower or the Guarantor herein, or in any writing furnished by or on behalf of the Borrower or any of the Guarantor in connection with the loan by the Issuer under the Sale Agreement or pursuant to this Agreement, or any of the Security Instruments shall have been false, misleading or incomplete in any material respect on the date as of which made; or

(e) If the Borrower or the Guarantor default in the performance or observance of any agreement or covenant contained in Article VII hereof; or

(f) If the Borrower or the Guarantor default in the performance or observance of any other agreement, covenant, term or condition contained herein, and such default shall not have been remedied thirty (30) days after written notice thereof shall have been received by it from the Bank; or

(g) The Borrower or the Guarantor shall make an assignment for the benefit of creditors, file a petition in bankruptcy, have entered against or in favor of it an order for relief under the Federal Bankruptcy Code or similar law of any foreign jurisdiction, generally fail to pay its debts as they come due (either as to number or amount), admit in writing its inability to pay its debts generally as they mature, make a voluntary assignment for the benefit of creditors, commence any voluntary assignment for the benefit of creditors, commence any proceeding relating to it under any reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, or by any act, indicate its consent to, approval of or acquiescence in any such proceeding for the appointment of any receiver of, or trustee or custodian (as defined in the Federal Bankruptcy Code) for itself, or any substantial part of its property, or a trustee or a receiver shall be appointed for the Borrower or for a substantial part of the property of the Borrower or the Guarantor and such appointment remains in effect for more than sixty (60) days, or a petition in bankruptcy or for reorganization shall be filed against the Borrower or the Guarantor and such petition shall not be dismissed within sixty (60) days after such filing;

(h) If a final judgment, which with other outstanding final judgments against the Borrower or the Guarantor exceeds an aggregate of Ten Million Dollars (\$10,000,000), in excess of insurance, shall be rendered against the Borrower or the Guarantor and if within 30 days after entry thereof such judgment shall not have been discharged or execution thereof stayed pending appeal, or if within 30 days after the expiration of any such stay such judgment shall not have been discharged;

then at any time thereafter, the Bank may (a) pursuant to Section 902 of the Indenture, advise the Trustee that an Event of Default has occurred and instruct the Trustee to declare the principal of all Bonds then outstanding and interest thereon to be immediately due and payable, and (b) proceed hereunder, and under the Security Instruments and, to the extent therein provided, under the Bond Documents, in such order as it may elect and the Bank shall have no obligation to proceed against any Person or exhaust any other remedy or remedies which it may have and without resorting to any other security, whether held by or available to the Bank.

Section 9.2. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Bank is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder and the Security Instruments or now or hereafter existing at law or in equity or by statute.

ARTICLE X  
MISCELLANEOUS

Section 10.1. Indemnification.

(a) (i) Each of the Borrower and the Guarantor, jointly and severally, hereby indemnifies and holds the Bank harmless from and against any and all claims, damages, losses, liabilities, costs or expenses whatsoever which the Bank may incur (or which may be claimed against the Bank by any Person) (i) by reason of or in connection with the execution and delivery or transfer of, or payment or failure to pay under, the Letter of Credit, provided that the Borrower and the Guarantor shall not be required to indemnify the Bank for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (a) the gross negligence or willful misconduct of the Bank in connection with paying drafts presented under the Letter of Credit or (b) the Bank's willful failure to pay under the Letter of Credit (other than in connection with a court order) after the presentation to it by the Trustee or a successor corporate fiduciary under the Indenture of a sight draft and certificate strictly complying with the terms and conditions of the Letter of Credit or (c) any other failure of the Bank to conform to the Uniform Customs and Practice; or (ii) by reason of or in connection with the execution, delivery or performance of any of this Agreement, the Security Instruments or any transaction contemplated by any thereof.

(b) Each of the Borrower and the Guarantor, jointly and severally, hereby indemnifies and holds the Bank harmless from and against any and all damages, penalties, fines, claims, liens, suits, liabilities, costs (including clean-up costs), judgments and expenses (including attorneys', consultants' or experts' fees and expenses) of every kind and nature suffered by or asserted against the Bank as a direct or indirect result of any warranty or representation made by the Borrower and the Guarantor in Section 2.11 hereof, respectively, being false or untrue in any material respect or any requirement under any law, regulation or ordinance, local, state, or federal, which requires the elimination or removal of any hazardous materials, substances, wastes or other environmentally regulated substances at the Project Site, except to the extent that any such damages, penalties, fines, claims, liens, suits, liabilities, costs, judgments or expenses result directly or indirectly from the actions of the Bank or any of its directors, officers, shareholders or employees. The Borrower's and the Guarantor's obligations hereunder to the Bank shall not be limited to any extent by the term of this Agreement, and, as to any act or occurrence prior to the termination of this Agreement which gives rise to liability hereunder, shall continue, survive and remain in full force and effect notwithstanding the termination of the Bank's obligations hereunder.

Anything herein to the contrary notwithstanding, nothing in this Section 10.1 is intended or shall be construed to limit the Borrower's reimbursement obligation or the Guarantor's guaranty obligation contained in Article IV hereof. Without prejudice to the survival of any other obligation of the Borrower or the Guarantor, the indemnities and obligations of the Borrower and the Guarantor contained in this Section 10.1 shall survive the payment in full of amounts payable pursuant to Article IV and the Termination Date.

Section 10.2. Transfer of Letter of Credit. The Letter of Credit may be transferred and assigned in accordance with the terms of the Letter of Credit.

Section 10.3. Reduction of Letter of Credit.

(a) The Letter of Credit is subject to reduction pursuant to its terms.

(b) If the amount available to be drawn under the Letter of Credit shall be permanently reduced in accordance with the terms thereof, then the Bank shall have the right to require the Trustee to surrender the Letter of Credit to the Bank and to issue on such date, in substitution for such outstanding Letter of Credit, a substitute irrevocable letter of credit, substantially in the form of the Letter of Credit but with such changes therein as shall be appropriate to give effect to such reduction, dated such date, for the amount to which the amount available to be drawn under the Letter of Credit shall have been reduced.

Section 10.4. Liability of the Bank. Neither the Bank nor any of its officers, directors, employees, agents or consultants shall be liable or responsible for:

(a) the use which may be made of the Letter of Credit or for any acts or omissions of the Trustee or any beneficiary or transferee in connection therewith;

(b) the validity, sufficiency or genuineness of documents, or of any endorsement(s) thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged;

(c) payment by the Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or

(d) any other circumstances whatsoever in any way related to the making or failure to make payment under the Letter of Credit;

except only that the Borrower and the Guarantor shall have a claim against the Bank, and the Bank shall be liable to the Borrower and the Guarantor, to the extent but only to the extent, of any direct, as opposed to consequential, damages suffered by the Borrower or the Guarantor which were caused by (i) the gross negligence or willful misconduct of the Bank in determining whether documents presented under the Letter of Credit complied with the terms of the Letter of Credit or (ii) wrongful failure of the Bank to pay under the Letter of Credit after the presentation to it by the Trustee or a successor trustee under the Indenture of a sight draft and certificate strictly complying with the terms and conditions of the Letter of Credit or (iii) any other failure of the Bank to conform to the requirements of the Uniform Customs and Practice. In furtherance and not in limitation of the foregoing, the Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

Section 10.5. Successors and Assigns. This Agreement shall be binding upon the Borrower, the Guarantor and the Bank, their respective successors and assigns and all rights against the Borrower or the Guarantor arising under this Agreement shall be for the sole benefit

of the Bank, its successors and assigns, all of whom shall be entitled to enforce performance and observance of this Agreement to the same extent as if they were parties hereto.

Section 10.6. Notices. All notices, requests and demands to or upon the respective parties hereto shall be deemed to have been given or made when hand delivered or mailed first class, certified or registered mail, postage prepaid, or by overnight courier service, addressed as follows or to such other address as the parties hereto shall have been notified pursuant to this Section 10.6:

The Bank: SunTrust Bank  
25 Park Place, 16th Floor  
Atlanta, Georgia 30303  
Attention: Letter of Credit Department

with a copy to: SunTrust Capital Markets  
303 Peachtree Street, 24th Floor  
Atlanta, Georgia 30303

The Borrower: Spence Engineering Company, Inc.  
c/o CIRCOR International, Inc.  
35 Corporate Drive  
Suite 290  
Burlington, Massachusetts 01803-4244  
Attention: Corporate Controller

The Guarantor: CIRCOR International, Inc.  
35 Corporate Drive  
Suite 290  
Burlington, Massachusetts 01803-4244  
Attention: Chief Financial Officer

except in cases where it is expressly herein provided that such notice, request or demand is not effective until received by the party to whom it is addressed, in which event said notice, request or demand shall be effective only upon receipt by the addressee.

Section 10.7. Amendment. This Agreement may be amended, modified or discharged only upon an agreement in writing of the Borrower, the Guarantor and the Bank.

Section 10.8. Effect of Delay and Waivers. No delay or omission to exercise any right or power accruing upon any default, omission or failure of performance hereunder shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Bank to exercise any remedy now or hereafter existing at law or in equity or by statute, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. In the event any provision contained in this Agreement should be breached by any party and thereafter waived by the other party so empowered to act, such waiver shall be limited to the particular breach hereunder. No waiver, amendment, release or modification of

this Agreement shall be established by conduct, custom or course of dealing, but solely by an instrument in writing duly executed by the parties thereunto duly authorized by this Agreement.

Section 10.9. Counterparts. This Agreement may be executed simultaneously in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 10.10. Severability. The invalidity or unenforceability of any one or more phrases, sentences, clauses or Sections contained in this Agreement shall not affect the validity or enforceability of the remaining portions of this Agreement, or any part thereof.

Section 10.11. Cost of Collection. Each of the Borrower and the Guarantor shall be liable for the payment of all reasonable fees and expenses, including reasonable attorneys' fees (computed without regard to any statutory presumption), incurred in connection with the enforcement of this Agreement.

Section 10.12. Set Off. Upon the occurrence of an Event of Default hereunder, the Bank is hereby authorized, without notice to the Borrower or the Guarantor, to set off, appropriate and apply any and all monies, securities and other properties of the Borrower or the Guarantor hereafter held or received by or in transit to the Bank from or for the Borrower or the Guarantor, against the obligations of the Borrower or the Guarantor irrespective of whether the Bank shall have made any demand hereunder or any other Credit Security Instrument under and although such obligations may be contingent or unmatured.

Section 10.13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia. The Guarantor hereby acknowledges that the Letter of Credit shall be governed by and construed in accordance with Uniform Customs and Practice.

Section 10.14. References. The words "herein", "hereof", "hereunder" and other words of similar import when used in this Agreement refer to this Agreement as a whole, and not to any particular article, section or subsection.

Section 10.15. Consent to Jurisdiction, Venue. In the event that any action, suit or other proceeding is brought against the Borrower or the Guarantor by or on behalf of the Bank to enforce the observance or performance of any of the provisions of this Agreement or of any of the Security Instruments, including without limitation the collection of any amounts owing thereunder, each of the Borrower and the Guarantor hereby (i) irrevocably consents to the exercise of jurisdiction over the Borrower and the Guarantor and to the extent permitted by applicable laws, their property, by the United States District Court, Northern District of Georgia, and by Supreme Court of Georgia or the State Court and (ii) irrevocably waives any objection it might now or hereafter have or assert to the venue of any such proceeding in any court described in clause (i) above.

IN WITNESS WHEREOF, the Borrower, the Guarantor and the Bank have caused this Agreement to be executed in their respective names, as a sealed instrument all as of the date first above written.

THE BORROWER:  
SPENCE ENGINEERING COMPANY, INC.

By: /S/ DAVID A. BLOSS, SR.

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Title: President

(Signature Page - Letter of Credit, Reimbursement and Guaranty Agreement - Spence)

THE GUARANTOR:  
CIRCOR INTERNATIONAL, INC.

By: /S/ DAVID A. BLOSS, SR.

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Title: Chairman, Chief Executive Officer, and  
President

(Signature Page - Letter of Credit, Reimbursement and Guaranty Agreement - Spence)

THE BANK:  
SUNTRUST BANK

By: /S/ LAURA KAHN

\_\_\_\_\_  
Director, and Senior Relationship Manager

ATTEST:

\_\_\_\_\_  
Title: \_\_\_\_\_

(Signature Page - Letter of Credit, Reimbursement and Guaranty Agreement - Spence)

EXHIBIT A

[FORM OF LETTER OF CREDIT]

IRREVOCABLE LETTER OF CREDIT

Date: March 3, 2004

LETTER OF CREDIT NO.: \_\_\_\_\_

U.S. Bank National Association  
as Trustee  
One Federal Street, 3<sup>rd</sup> Floor  
Boston, MA 02110

Attention: Corporate Trust Department:

We hereby issue to you, U.S. Bank National Association, as Trustee, under the Trust Indenture, dated as of June 1, 1994 (the "Indenture"), between the Village of Walden Industrial Development Agency (the "Issuer") and you, pursuant to which \$7,500,000 aggregate principal amount of Industrial Development Revenue Refunding Bonds (Spence Engineering Company, Inc. Project), Series 1994 (the "Bonds") are currently outstanding, this irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit") for the account of Spence Engineering Company, Inc., a Delaware corporation (the "Borrower") in the amount of \$7,875,000 (the "Initial Stated Amount" and, as from time to time reduced and reinstated as hereinafter provided, the "Amount Available"), of which (i) subject to the provisions below reducing amounts available hereunder, \$7,500,000 (as from time to time reduced and reinstated as hereinafter provided, the "Principal Amount Available") shall be available for the payment of principal or the portion of the purchase price corresponding to principal of the Bonds and (ii) subject to the provisions below reducing amounts available hereunder, \$375,000 (as from time to time reduced and reinstated as hereinafter provided, the "Interest Amount Available") shall be available for the payment of up to 120 days' interest or the portion of the purchase price corresponding to interest on the Bonds at an assumed rate of 15% per annum (computed on the basis of a year of 365 days). Subject to such aggregate limits and to the conditions set forth herein, funds may be drawn upon hereunder (i) with respect to payment of the unpaid principal amount or the portion of purchase price corresponding to the principal of the Bonds and (ii) with respect to payment of up to 120 days' interest accrued and payable or the portion of purchase price corresponding to interest accrued on the Bonds on or prior to their stated maturity date. This Letter of Credit is effective immediately and expires at 3:00 P.M. (Eastern time) at our Presentation Office (as hereinafter defined) on March 1, 2005 (as may be extended from time to time as hereinafter described, the "Stated Termination Date"), or earlier as hereinafter provided. This Letter of Credit shall automatically

be extended for an additional one-year period from the then applicable Stated Termination Date unless we give you, or any successor Trustee, written notice of our election not to renew this Letter of Credit at least 120 days prior to the then applicable Stated Termination Date by U.S. certified mail, return receipt requested. All drawings under this Letter of Credit will be paid with our own funds.

We hereby irrevocably authorize you to draw on us, in an aggregate amount not to exceed the Amount Available and in accordance with the terms and conditions and subject to the reductions in amounts as hereinafter set forth, (1) in one or more drawings (subject to the provisions contained in the next following paragraph) by one or more of your drafts drawn on us at sight, presented for payment on a day on which banks are not required or authorized to close in Atlanta, Georgia (a "Business Day") and referring therein to the number of this Letter of Credit, and accompanied by your written and completed certificate signed by you in the form of Annex A attached hereto (any such draft accompanied by such certificate being your "Interest Draft"), an amount not exceeding the Interest Amount Available on the date of such drawing; (2) in one or more drawings by one or more of your drafts drawn on us at sight, presented for payment on a Business Day and referring therein to the number of this Letter of Credit, and accompanied by your written completed certificate signed by you in the form of Annex B attached hereto (any such draft accompanied by such certificate being your "Tender Draft"), an aggregate amount not exceeding the Amount Available on the date of such drawing; (3) in one or more drawings by one or more of your drafts drawn on us at sight, presented for payment on a Business Day and referring therein to the number of this Letter of Credit, and accompanied by your written and completed certificate signed by you in the form of Annex C attached hereto (any such draft accompanied by such certificate being your "Partial Redemption Draft"), an aggregate amount not exceeding the Amount Available on the date of such drawing; (4) in a single drawing by your draft drawn on us at sight presented for payment on a Business Day and referring therein to the number of this Letter of Credit, and accompanied by your written and completed certificate signed by you in the form of Annex D hereto (any such draft accompanied by such certificate being your "Conversion Draft"), an amount not exceeding the Amount Available on the date of such drawing; and (5) in a single drawing by your draft drawing on us at sight, presented for payment on a Business Day and referring therein to the number of this Letter of Credit, and accompanied by your written and completed certificate signed by you in the form of Annex E attached hereto (such draft accompanied by such certificate being your "Final Draft"), an amount not exceeding the Amount Available on the date of such drawing.

If you shall draw on us by an Interest Draft and you shall not have received from us within ten (10) calendar days from the date of our payment in respect of such drawing a notice to the effect that we have not been reimbursed for such drawing and that the interest portion of the Letter of Credit will not be reinstated, then (x) your right to draw on us in a single drawing by your Interest Draft under clause (1) of the immediately preceding paragraph shall be automatically reinstated and (y) effective as of the eleventh (11th) calendar day from the date of our payment in respect of such drawing, you shall again be authorized to draw on us by your Interest Draft in accordance with said clause (1). The provisions of this paragraph providing for the reinstatement of your right to draw on us by your Interest Draft in a succeeding single drawing shall be applicable to each successive drawing by your Interest Draft under clause (1) of

the immediately preceding paragraph so long as this Letter of Credit shall not have terminated as set forth below.

Upon our honoring any Tender Draft presented by you hereunder, the Amount Available under this Letter of Credit shall be automatically reduced by the amount drawn under such Tender Draft, the Principal Amount Available to be drawn hereunder by you shall be automatically reduced by an amount equal to the principal component of such Tender Draft and the Interest Amount Available to be drawn hereunder by you shall be automatically reduced by an amount equal to the amount of the interest component of such Tender Draft.

Upon our honoring any Partial Redemption Draft presented by you hereunder, the Amount Available under this Letter of Credit shall be automatically and permanently reduced by the amount drawn under any such Partial Redemption Draft, the Principal Amount Available to be drawn hereunder by you shall be automatically and permanently reduced by an amount equal to the principal component of such Partial Redemption Draft honored by us hereunder and the Interest Amount Available to be drawn hereunder by you shall be automatically and permanently reduced by an amount equal to the amount of the interest component of any such Partial Redemption Draft honored by us hereunder.

Upon our honoring any Conversion Draft presented by you hereunder, the Amount Available under this Letter of Credit shall be automatically and permanently reduced by the amount drawn under any such Conversion Draft, the Principal Amount Available to be drawn hereunder by you shall be automatically and permanently reduced by an amount equal to the principal component of such Conversion Draft-honored by us hereunder, and the Interest Amount Available to be drawn hereunder by you shall be automatically and permanently reduced by an amount equal to the amount of the interest component of any such Conversion Draft honored by us hereunder.

The Amount Available, the Principal Amount Available and the Interest Amount Available to be drawn under this Letter of Credit with respect to any Tender Draft shall be reinstated as provided in this paragraph to the extent, but only to the extent, that we are reimbursed by or on behalf of the Borrower in immediately available funds delivered to us at the Presentation Office, on or before 3:00 P.M. (Eastern time), on a Business Day for any amount drawn in respect of principal and interest under any Tender Draft. If we receive such reimbursement by or on behalf of the Borrower, all in strict conformity with the terms and conditions of this Letter of Credit, after 3:00 P.M. (Eastern time), on a Business Day prior to the termination hereof, such reimbursement will be honored as stated above as if received on the next succeeding Business Day. Any amount received by us from or on behalf of the Borrower in reimbursement of amounts drawn hereunder by a Tender Draft shall, if accompanied by your completed certificate signed by you in the form of Annex F attached hereto, be applied to the extent of the amount received by us and indicated therein to reimburse us for amounts drawn hereunder by your Tender Drafts and we will confirm to you the amount of the Principal Amount Available and the Interest Amount Available increased by such reimbursement by delivering to you the executed and completed acknowledgment accompanying the form of Annex F delivered by you in connection with such reimbursement. The Amount Available, the Principal Amount

Available and the Interest Amount Available shall be increased only in compliances with the provisions of this paragraph.

Each draft and certificate presented hereunder shall be dated the date of its presentation and each such draft and certificate shall be presented at our office located at 25 Park Place, 16th Floor, Atlanta, Georgia 30303, Attention: Letter of Credit Department (or at any other office which may be designated by us by written notice delivered to you at least three Business Days prior to a date on which interest is payable on the Bonds) (the "Presentation Office") and shall be presented on a Business Day. If we receive any of your drafts and certificates at such office, all in strict conformity with the terms and conditions of this Letter of Credit, not later than 11:00 A.M. (Eastern time), on a Business Day on or prior to the termination hereof, we will honor the same by initiating the wiring of funds by 2:30 P.M. (Eastern time) on the same day in accordance with your payment instructions. If we receive any of your drafts and certificates at such office, all in strict conformity with the terms and conditions of this Letter of Credit, after 11:00 A.M. (Eastern time), on a Business Day prior to the termination hereof, we will honor the same on the next succeeding Business Day in accordance with your payment instructions. If requested by you, payment under this Letter of Credit may be made by transfer of immediately available funds to your account in a bank or by deposit of same day funds into a designated account that you maintain with us.

In connection with the presentation of any Tender Draft or Conversion Draft, Bonds in aggregate principal amount equal to the principal amount of such Tender Draft or Conversion Draft shall be delivered to the Bank or its designee as promptly as practicable, and in any event within five Business Days after such presentation, registered in the name of the Bank, or its designee, as pledgee of the Borrower, pledged to the Bank pursuant to the Pledge Agreement. With respect to any Tender Draft, the Bank agrees that it shall not release any Bonds pledged to it until the Letter of Credit shall have been reinstated so that the Amount Available, as so reinstated, shall equal or exceed the aggregate principal and 120 days' interest calculated at an assumed rate of 15% per annum on all Bonds for which drawings are available hereunder after giving effect to such release.

Upon the earliest of (i) our honoring your Final Draft presented hereunder, (ii) the second day following the date on which we receive a certificate signed by you stating that the interest rate on the Bonds has been converted to a fixed interest rate, (iii) the date on which we receive a certificate signed by you stating that the Borrower has provided and you have accepted an Alternate Credit Facility in accordance with the terms of the Indenture which is effective the date of such certificate, or (iv) the Stated Termination Date, this Letter of Credit shall terminate.

This Letter of Credit is transferable only in its entirety to any transferee whom you certify to us has succeeded you as Trustee under the Indenture, and may be successively transferred. Transfer of the Amount Available under this Letter of Credit to such transferee shall be effected by the presentation to us of this Letter of Credit accompanied by a certificate in the form of Annex G attached hereto and payment of the transfer commission referred to therein. Upon such presentation we shall forthwith transfer the same to your transferee or, if so requested by your transferee, issue a letter of credit to your transferee with provisions therein consistent with this Letter of Credit.

This Letter of Credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein (including, without limitation, the Bonds or the Indenture), except only the certificates and the drafts referred to herein which are hereby incorporated by reference; and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except for such certificates and such drafts.

Except as otherwise provided herein, this Letter of Credit shall be governed by and construed in accordance with the Uniform Customs and Practice for Documentary Credits (1993 Revisions), International Chamber of Commerce Publication No. 500 (the "UCP") and, to the extent not inconsistent therewith, the laws of the State of Georgia. Communications with respect to this Letter of Credit other than presentations of drafts and certificates hereunder shall be in writing and shall be addressed to us at 25 Park Place, 16th Floor, Atlanta, Georgia 30303, Attention: Letter of Credit Department, specifically referring to the number of this Letter of Credit.

Very truly yours,  
SUNTRUST BANK

By: \_\_\_\_\_

Title: Vice President

Annex A

[Form of Certificate for Interest Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT  
OF UP TO 120 DAYS' INTEREST

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with references to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment of interest on the Bonds, which payment is due and payable on a regular Interest Payment Date. On the record date for such Interest Payment Date, none of such Bonds for which interest is drawn pursuant to the draft were held of record by the Borrower, or by the Bank, or its designee, as pledgee of the Borrower.

(3) [The Interest Draft accompanying this Certificate is the first Interest Draft presented by the Trustee under the Letter of Credit.]\* [The Interest Draft last presented by the Trustee under the Letter of Credit was honored and paid by the Bank on \_\_\_\_\_, \_\_\_\_\_, and the Trustee had not received a notice within ten days of presentation of such Interest Draft from the Bank that the Bank has not been reimbursed.]\*\*

(4) The amount of the Interest Draft accompanying this Certificate is \$\_\_\_\_\_. It was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the Interest Amount Available to be drawn by the Trustee under the Letter of Credit.

(5) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the interest amount owing on account of the Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose, and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\* To be used in the Certificate relating to the first Interest Draft only.

\*\* To be used in each Certificate relating to each Interest Draft other than the first Interest Draft.

Annex B

[Form of Certificate for Tender Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT  
OF PRINCIPAL PURCHASE PRICE AND PORTION OF PURCHASE PRICE  
CORRESPONDING TO INTEREST OF BONDS TENDERED

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined herein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the registered owners of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment, upon a tender of all or less than all of the Bonds, which are Outstanding (as defined in the Indenture), of the unpaid principal amount of the Bonds and accrued interest thereon to be purchased as a result of such tender pursuant to the terms of Article III of the Indenture (other than Bonds, presently held of record by the Borrower, or by the Bank, or its designee, as pledge of the Borrower) which payment is due on the date on which this Certificate and the Tender Draft it accompanies are being presented to the Bank.

(3) The amount of the Tender Draft accompanying this Certificate is equal to the sum of (i) \$\_\_\_\_\_ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by the Borrower or by the Bank, or its designee, as pledgee of the Borrower) to be purchased as a result of a tender, which amount does not exceed the Principal Amount Available under the Letter of Credit, and (ii) \$\_\_\_\_\_ being drawn in respect of the payment of \_\_\_\_\_ days' [not to exceed 120 days'] accrued and unpaid interest on such Bonds constituting a portion of the purchase price of such Bonds being purchased as a result of a tender, which amount does not exceed the Interest Amount Available under the Letter of Credit.

(4) The Trustee shall register or cause to be registered in the name of the Bank, or its designee, as pledgee of the Borrower, pursuant to Section 3 of the Pledge Agreement, and shall deliver or cause to be delivered to the Bank or its designee Bonds in the principal amount of the Tender Draft accompanying this Certificate as promptly as

practicable, and in any event within five Business Days after presentation of the Tender Draft accompanying this Certificate.

(5) Upon receipt of the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the purchase price of Bonds tendered pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any, other purpose, and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

(6) The amount of the Tender Draft accompanying this Certificate was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the Amount Available under the Letter of Credit.

The Trustee acknowledges that, pursuant to the terms of the Letter of Credit, upon the Bank's honoring of the Tender Draft accompanying this Certificate, (i) the Amount Available under the Letter of Credit shall be automatically reduced by the aggregate amount of such Tender Draft, (ii) the Principal Amount Available under the Letter of Credit shall be automatically reduced by an amount equal to the amount of the principal component of such draft set forth in paragraph 3 above, and (iii) the Interest Amount Available under the Letter of Credit shall be automatically reduced by an amount equal to the amount of the interest component of such draft set forth in paragraph 3 above, subject to reinstatement as set forth in the Letter of Credit.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex C

[Form of Certificate for Partial Redemption Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT  
OF PRINCIPAL AND UP TO 120 DAYS' INTEREST UPON  
PARTIAL REDEMPTION

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the registered owners of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment, upon redemption of less than all of the Bonds which are Outstanding (as defined in the Indenture), of the unpaid principal amount of, and up to 120 days' accrued and unpaid interest on, the Bonds to be redeemed pursuant to the Indenture (other than Bonds presently held of record by the Borrower, or by the Bank, or its designee, as pledgee of the Borrower).

(3) The amount of the Partial Redemption Draft accompanying this Certificate is \$ \_\_\_\_\_ and is equal to the sum of (i) \$ \_\_\_\_\_ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by the Borrower or by Bank, or its designee, as pledgee of the Borrower) to be redeemed, which amount does not exceed the Principal Amount Available under the Letter of Credit and (ii) \$ \_\_\_\_\_ being drawn in respect of the payment of \_\_\_ days' [not to exceed 120 days'] accrued and unpaid interest on such Bonds, which amount does not exceed the Interest Amount Available under the Letter of Credit.

(4) The amount of the Partial Redemption Draft accompanying this Certificate was computed in accordance with the terms and conditions of the Bonds and the Indenture and does not exceed the Amount Available under the Letter of Credit.

(5) This Certificate and the Partial Redemption Draft it accompanies are dated, and are being presented to the Bank on, the date on which the unpaid principal amount of, and accrued and unpaid interest on, Bonds to be redeemed are due and payable under the Indenture upon redemption of less than all of the Bonds which are Outstanding (as defined in the Indenture).

(6) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the principal amount of and accrued and unpaid interest on the Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

The Trustee acknowledges that, pursuant to the terms of Letter of Credit, upon the Bank's honoring the Partial Redemption Draft accompanying this Certificate, (i) the Amount Available under the Letter of Credit shall be permanently reduced by the aggregate amount of such Partial Redemption Draft, (ii) the Principal Amount Available under the Letter of Credit shall be permanently reduced by an amount equal to the amount of the principal component of such draft set forth in paragraph 3 above and (iii) the Interest Amount Available under the Letter of Credit shall be permanently reduced by an amount of the interest component of such draft set forth in paragraph 3 above.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex D

[Form of Certificate for Conversion Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE  
PAYMENT OF PRINCIPAL PLUS ACCRUED INTEREST  
UPON A MANDATORY PURCHASE  
(CONVERSION TO A FIXED INTEREST RATE)

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the registered owners of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment, upon a mandatory tender for purchase pursuant to Section 202(e) of the Indenture (conversion to a Fixed Interest Rate within the meaning of the Indenture) of all or less than all of the Bonds which are Outstanding (as defined in the Indenture), of the unpaid principal amount of, and up to 120 days' accrued and unpaid interest on, the Bonds to be so purchased (other than Bonds presently held of record by the Borrower, or the Bank, or its designee, as pledgee of the Borrower), which payment is due on the date on which this Certificate and the Conversion Draft it accompanies are being presented to the Bank.

(3) The amount of the Conversion Draft accompanying this Certificate is \$\_\_\_\_\_ and is equal to the sum of (i) \$\_\_\_\_\_ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by the Borrower, or by the Bank, or its designee, as pledgee of the Borrower) to be purchased, which amount does not exceed the Principal Amount Available under the Letter of Credit, and (ii) \$\_\_\_\_\_ being drawn in respect of the payment of days' [Not to exceed 120 days'] accrued and unpaid interest on such Bonds, which amount does not exceed the Interest Amount Available under the Letter of Credit.

(4) The amount of the Conversion Draft accompanying this Certificate was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the Amount Available under the Letter of Credit.

(5) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the principal amount of, and interest accrued and unpaid on, the Bonds pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for any other purpose and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

(6) The Trustee shall register or cause to be registered in the name of the Bank, or its Agent, as pledgee of the Borrower, pursuant to Section 3 of the Pledge Agreement and shall deliver or cause to be delivered to the Bank of its Agent a principal amount of bonds equal to the principal amount of the Conversion Draft accompanying this Certificate as promptly as practicable, and in any event within five Business Days after presentation of the Conversion Draft accompanying this Certificate.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the day of \_\_\_\_\_, 20\_\_.

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex E

[Form of Certificate for Final Draft]

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT  
OF PRINCIPAL PLUS ACCRUED INTEREST, UPON STATED  
OR ACCELERATED MATURITY OR OPTIONAL OR MANDATORY  
REDEMPTION AS A WHOLE

Irrevocable Letter of Credit No. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the registered owners of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to a payment, either at stated maturity, upon acceleration, or as a result of a redemption as a whole pursuant to the Indenture, of the unpaid principal amount of and up to 120 days' accrued and unpaid interest on, all of the Bonds which are "Outstanding" within the meaning of the Indenture (other than Bonds presently held of record by the Borrower or by the Bank, or its designee, as pledgee of the Borrower).

(3) The amount of the Final Draft accompanying this Certificate is \$\_\_\_\_\_ and is equal to the sum of (i) \$\_\_\_\_\_ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by the Borrower or by the Bank, or its designee, as pledgee of the Borrower), which amount does not exceed the Principal Amount Available under the Letter of Credit, and (ii) \$\_\_\_\_\_ being drawn in respect of the payment of \_\_\_\_\_ days' [not to exceed 120 days'] accrued and unpaid interest on such Bonds, which amount does not exceed the Interest Amount Available under the Letter of Credit.

(4) The amount of the Final Draft accompanying this Certificate was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the Amount Available under the Letter of Credit.

(5) Upon receipt by the undersigned of the amount demanded hereby, (a) the undersigned will apply the same directly to the payment when due of the principal amount and accrued and unpaid interest thereon owing on account of the Bond pursuant to the Indenture, (b) no portion of said amount shall be applied by the undersigned for

any other purpose and (c) no portion of said amount shall be commingled with other funds held by the undersigned.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_ day of \_\_\_\_\_, 20\_\_.

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex F

[Form of Reinstatement Certificate For Tender Draft]

CERTIFICATE FOR THE REINSTATEMENT OF AMOUNTS AVAILABLE  
UNDER IRREVOCABLE LETTER OF CREDIT NO. \_\_\_\_\_

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee"), hereby certifies to SunTrust Bank (the "Bank"), with reference to Irrevocable Letter of Credit No. \_\_\_\_\_ (the "Letter of Credit"; the terms defined therein and not otherwise defined herein being used herein as therein defined) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(2) The amount of \$\_\_\_\_\_ paid to you today by or on behalf of the Borrower is a payment made to reimburse you, pursuant to Section 4.2 of the Letter of Credit, Reimbursement and Guaranty Agreement dated as of March 1, 2004 (the "Reimbursement Agreement"), between the Borrower and the Bank, for amounts drawn under the Letter of Credit by Tender Drafts. The Trustee hereby requests that you reinstate the Letter of Credit upon receipt of such payment in an amount equal to the amount of payment so received.

(3) Of the amount referred to in paragraph (2), \$\_\_\_\_\_ represents the aggregate principal amount of Bonds resold or to be sold on behalf of the Borrower.

(4) Of the amount referred to in paragraph (2), \$\_\_\_\_\_ represents accrued and unpaid interest on the Bonds.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the - day of \_\_\_\_\_, 20\_\_.

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

ACKNOWLEDGMENT

The Bank hereby confirms to the Trustee that the Principal Amount Available under the Letter of Credit has been reinstated by the amount of \$\_\_\_\_\_ and the Interest Amount Available under the Letter of Credit has been reinstated by the amount of \$\_\_\_\_\_

This \_\_ day of \_\_\_\_\_, 20\_\_.

SUNTRUST BANK

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Annex G

[Form of Transfer Certificate]

INSTRUCTION TO TRANSFER

SunTrust Bank  
25 Park Place, 16th Floor  
Atlanta, Georgia 30303

Attention: Letter of Credit Department

Re: Your Irrevocable Letter of Credit No. \_\_\_\_\_

Ladies and Gentlemen:

For value received, the undersigned beneficiary (the "Transferor") hereby irrevocably transfer to:

\_\_\_\_\_  
[Name of Transferee]

\_\_\_\_\_  
[Address]

(the "Transferee") all rights of the Transferor with respect to the above-referenced Letter of Credit, including the right to draw under said Letter of Credit in the Amount Available. Said Transferee has succeeded the Transferor as Trustee under that certain Trust Indenture, dated as of June 1, 1994, by and between the Village of Walden Industrial Development Agency and U.S. Bank National Association, as successor in interest to The First National Bank of Boston, as trustee thereunder (the "Indenture"), with respect to the \$7,500,000 Industrial Development Revenue Refunding Bonds (Spence Engineering Company, Project), Series 1994, and has complied with the provisions of the Indenture.

By virtue of this transfer, the Transferee shall have the sole rights as beneficiary of said Letter of Credit, including sole rights relating to any past or future amendments thereof, whether increases or extensions or otherwise. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the Transferor.

By its signature below, the Transferee acknowledges that it has duly succeeded the Transferor as Trustee pursuant to the Indenture.

The advice of such Letter of Credit is returned herewith, along with a transfer fee of \$1,000.00, and we ask you to endorse the transfer on the reverse side thereof and to forward it directly to the Transferee with your customary notice of transfer.

Very truly yours,

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_

[insert name and title of authorized officer]

[Corporate Seal]

Acknowledged by:

\_\_\_\_\_

[insert name of Transferee]

By: \_\_\_\_\_

[insert name and title of authorized officer]

[Corporate Seal]

**SUBSIDIARIES OF CIRCOR INTERNATIONAL, INC.**

- I. Subsidiaries of CIRCOR International, Inc.:
  - 1. Spence Engineering Company, Inc., a Delaware Corporation
  - 2. Leslie Controls, Inc., a New Jersey Corporation
  - 3. Circle Seal Controls, Inc., a Delaware Corporation
  - 4. KF Industries, Inc., an Oklahoma Corporation
  - 5. Circor, Inc., a Massachusetts Corporation
  - 6. Société Alsacienne Regulaves Thermiques von Rohr, SAS, a French Limited Liability Company
  - 7. Circor Holdings B.V., a Netherlands Corporation
  - 8. Circor (Jersey) Ltd., a United Kingdom Company (80% ownership)
  - 9. U.S. Para Plate Corporation, a California Corporation
  - 10. U.S. Para Plate Acquisition Corp., a Delaware Corporation
  - 11. CIRCOR Business Trust, a Massachusetts Business Trust
  - 12. DQS International B.V., a Netherlands Corporation
  - 13. Texas Sampling, Inc., a Texas Corporation
- II. Subsidiaries of Circle Seal Controls, Inc.:
  - 1. CIRCOR IP Holding Co., a Delaware Corporation
  - 2. Circle Seal Corporation, a Delaware Corporation
  - 3. Suzhou KF Valve Co., Ltd. (JV), a Chinese Joint Venture (60% ownership)
  - 4. Hoke, Inc., a New York Corporation
- III. Subsidiaries of KF Industries, Inc.:
  - 1. Pibiviesse S.p.A., an Italian Company
  - 2. IOG Canada Inc., a Canadian Corporation
- IV. Subsidiaries of Pibiviesse S.p.A.:
  - 1. De Martin Giuseppe & Figli Srl, an Italian Company (80% ownership)

- 
- V. Subsidiaries of Hoke, Inc.:
    - 1. Hoke Controls, Ltd., a Canadian Corporation
    - 2. CIRCOR German Holdings Management GmbH, a German Closed Corporation
    - 3. Circor (Jersey) Ltd., a United Kingdom Company (20% ownership)
    - 4. Circor Instrumentation Ltd., a United Kingdom Company
  - VI. Subsidiaries of Circor German Holdings GmbH & Co. KG
    - 1. Hoke GmbH, a German Corporation
    - 2. Regeltechnik Kornwestheim GmbH, a German Closed Corporation
  - VII. Subsidiaries of Société Alsacienne Regulaves Thermiques von Rohr, SAS:
    - 1. SCI MMC, a French Limited Liability Partnership
  - VIII. Subsidiaries of Circor Business Trust:
    - 1. Circor Securities Corp., a Massachusetts Corporation
  - IX. Subsidiaries of Circor (Jersey), Ltd.:
    - 1. Circor German Holdings, LLC, a Massachusetts Limited Liability Company
  - X. Subsidiaries of Circor German Holdings, LLC:
    - 1. Circor German Holdings GmbH & Co. KG
  - XI. Subsidiaries of Regeltechnik Kornwestheim GmbH:
    - 1. RTK Control Systems Limited, a United Kingdom Corporation
  - XII. Subsidiaries of DQS International B.V.
    - 1. Dovianus B.V., a Netherlands Corporation
    - 2. DQS Vastgoed BV, a Netherlands Corporation
    - 3. DQS Inc., a Delaware Corporation
    - 4. Keofitt Holding A.S., a Denmark Corporation (50% ownership)
  - XIII. Subsidiaries of DQS Inc.
    - 1. Dopak Inc., a Texas Corporation
  - XIV. Subsidiaries of Keofitt Holding A.S.
    - 1. Keofitt A.S., a Denmark Corporation
  - XV. Subsidiaries of IOG Canada, Inc.
    - 1. SSI Equipment Inc., a Canadian Corporation

**CONSENT OF INDEPENDENT AUDITORS'**

We hereby consent to the incorporation by reference in the registration statements on Form S-8 (No. 333 91229) and Form S-3 (No. 333 91229) of CIRCOR International, Inc. of our report dated February 29, 2004, relating to the consolidated balance sheets of CIRCOR International, Inc. as of December 31, 2003 and 2002 and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three year period ended December 31, 2003 and the related financial statement schedule, which report appears in the December 31, 2003 annual report on Form 10-K of CIRCOR International, Inc.

Our audit report indicates that, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets.

/S/ KPMG LLP

Boston, Massachusetts  
March 10, 2004

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David A. Bloss, Sr., certify that:

1. I have reviewed this annual report on Form 10-K of CIRCOR International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

Signature: /S/ DAVID A. BLOSS, SR.

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David A. Bloss, Sr.  
Chairman, President and Chief Executive Officer  
***Principal Executive Officer***

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kenneth W. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of CIRCOR International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

Signature: /S/ KENNETH W. SMITH

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Kenneth W. Smith  
Vice President, Chief Financial Officer and Treasurer  
***Principal Financial Officer***

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned officers, who are the Chief Executive Officer and Chief Financial Officer of CIRCOR International, Inc. (the "Company"), each hereby certifies to the best of his knowledge, that the Company's annual report on Form 10-K to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ DAVID A. BLOSS, SR.

/S/ KENNETH W. SMITH

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David A. Bloss, Sr.  
Chairman, President and Chief Executive Officer  
March 12, 2004

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Kenneth W. Smith  
Vice President, Chief Financial Officer and Treasurer  
March 12, 2004

A signed original of this written statement required by Section 906 has been provided to Circor International, Inc. and will be retained by Circor International, Inc. and furnished to the Securities and Exchange Commission, or its staff, upon request.