

Colfax CORP  
Form 10-Q  
May 08, 2009  
Table of Contents

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

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarter ended April 3, 2009

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-001-34045

**Colfax Corporation**

(Exact name of registrant as specified in its charter)

Edgar Filing: Colfax CORP - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**8730 Stony Point Parkway, Suite 150**  
**Richmond, Virginia**  
(Address of principal executive offices)

**54-1887631**  
(I.R.S. Employer  
Identification Number)

**23235**  
(Zip Code)

**(804) 560-4070**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of April 3, 2009, there were 43,211,026 shares of the registrant's common stock, par value \$.001 per share, outstanding.

**Table of Contents**

**COLFAX CORPORATION**

**FORM 10-Q**

**INDEX**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	24
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	25
Item 1A. <u>Risk Factors</u>	26
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
Item 3. <u>Defaults Upon Senior Securities</u>	26
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	26
Item 5. <u>Other Information</u>	26
Item 6. <u>Exhibits</u>	27
<b><u>SIGNATURES</u></b>	<b>28</b>

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****COLFAX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

Dollars in thousands, except per share amounts

(unaudited)

	<b>Three Months Ended</b>	
	<b>April 3, 2009</b>	<b>March 28, 2008</b>
Net sales	\$ 136,323	\$ 130,651
Cost of sales	88,308	82,473
Gross profit	48,015	48,178
Selling, general and administrative expenses	30,187	28,507
Research and development expenses	1,407	1,381
Asbestos liability and defense costs	1,645	278
Asbestos coverage litigation expenses	2,966	3,139
Operating income	11,810	14,873
Interest expense	1,846	4,497
Income before income taxes	9,964	10,376
Provision for income taxes	3,103	3,578
Net income	\$ 6,861	\$ 6,798
Net income per share basic and diluted	\$ 0.16	\$ 0.31

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**COLFAX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

Dollars in thousands

	April 3, 2009 (unaudited)	December 31, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 34,371	\$ 28,762
Trade receivables, less allowance for doubtful accounts of \$2,485 and \$2,486	86,862	101,064
Inventories, net	80,146	80,327
Deferred income taxes, net	6,245	6,327
Asbestos insurance asset	26,326	26,473
Asbestos insurance receivable	36,901	36,371
Prepaid and other current assets	12,501	15,533
Total current assets	283,352	294,857
Deferred income taxes, net	54,172	53,428
Property, plant and equipment, net	88,287	92,090
Goodwill	161,808	165,530
Intangible assets, net	12,378	13,516
Long-term asbestos insurance asset	274,057	277,542
Deferred loan costs, pension and other assets	15,100	16,113
	\$ 889,154	\$ 913,076
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt and notes payable	\$ 5,340	\$ 5,420
Accounts payable	41,939	52,138
Accrued asbestos liability	28,417	28,574
Accrued payroll	19,483	19,162
Accrued taxes	8,902	11,457
Other accrued liabilities	36,170	37,535
Total current liabilities	140,251	154,286
Long-term debt, less current portion	90,209	91,701
Long-term asbestos liability	324,905	328,684
Pension and accrued post-retirement benefits	125,857	130,188
Deferred income tax liability	6,755	7,685
Other liabilities	32,591	33,601
Total liabilities	720,568	746,145
Shareholders' equity:		
Common stock: \$0.001 par value; authorized 200,000,000; issued and outstanding 43,211,026	43	43
Additional paid-in capital	400,818	400,259
Retained deficit	(106,440)	(113,301)
Accumulated other comprehensive loss	(125,835)	(120,070)
Total shareholders' equity	168,586	166,931

\$ 889,154 \$ 913,076

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****COLFAX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Dollars in thousands

(unaudited)

	Three Months Ended	
	April 3, 2009	March 28, 2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,861	\$ 6,798
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	3,373	3,695
Noncash stock-based compensation	559	
Amortization of deferred loan costs	168	383
(Gain) loss on sale of fixed assets	(10)	47
Deferred income taxes	(1,678)	(2,455)
Changes in operating assets and liabilities:		
Trade receivables	10,293	(608)
Inventories	(3,416)	(15,753)
Accounts payable and accrued liabilities, excluding asbestos-related accrued liabilities	(13,306)	2,984
Other current assets	1,885	(1,239)
Change in asbestos liability and asbestos-related accrued liabilities, net of asbestos insurance asset and receivable	3,464	(4,762)
Changes in other operating assets and liabilities	2,475	(186)
Net cash provided by (used in) operating activities	10,668	(11,096)
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(3,137)	(2,954)
Proceeds from sale of fixed assets	51	23
Net cash used in investing activities	(3,086)	(2,931)
<b>Cash flows from financing activities:</b>		
Payments under term credit facility	(1,250)	
Payments on capital leases	(264)	(123)
Payment of IPO-related costs		(1,145)
Net cash used in financing activities	(1,514)	(1,268)
Effect of exchange rates on cash	(459)	455
Increase (decrease) in cash and cash equivalents	5,609	(14,840)
Cash and cash equivalents, beginning of period	28,762	48,093
Cash and cash equivalents, end of period	\$ 34,371	\$ 33,253

See accompanying notes to condensed consolidated financial statements.

---

**Table of Contents**

**COLFAX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Dollars in thousands, unless otherwise noted**

**1. Organization and Nature of Operations**

Colfax Corporation (the Company, Colfax, we or us) is a global supplier of a broad range of fluid handling products, including pumps, fluid handling systems and controls, and specialty valves. We believe that we are a leading manufacturer of rotary positive displacement pumps, which include screw pumps, gear pumps and progressive cavity pumps. We have a global manufacturing footprint, with production facilities in Europe, North America and Asia, as well as worldwide sales and distribution channels. Our products serve a variety of applications in five strategic markets: commercial marine, oil and gas, power generation, global navy and general industrial. We design and engineer our products to high quality and reliability standards for use in critical fluid handling applications where performance is paramount. We also offer customized fluid handling solutions to meet individual customer needs based on our in-depth technical knowledge of the applications in which our products are used. Our products are marketed principally under the Allweiler, Fairmount, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren, and Zenith brand names. We believe that our brands are widely known and have a premium position in our industry. Allweiler, Houttuin, Imo and Warren are among the oldest and most recognized brands in the fluid handling industry, with Allweiler dating back to 1860.

**2. General**

The unaudited condensed consolidated financial statements included in this quarterly report have been prepared by the Company according to the rules and regulations of the Securities and Exchange Commission (SEC) and according to accounting principles generally accepted in the United States of America (GAAP) for interim financial statements. The accompanying balance sheet information as of December 31, 2008 is derived from our audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the SEC's rules and regulations for interim financial statements. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited financial statements and related footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 6, 2009.

The financial statements reflect, in the opinion of management, all adjustments which consist solely of normal recurring adjustments necessary to present fairly the Company's financial position and results of operations as of and for the periods indicated. Significant intercompany transactions and accounts are eliminated in consolidation.

We make certain estimates and assumptions in preparing our condensed consolidated financial statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from those estimates.

Certain prior period amounts have been reclassified to conform to current year presentations.

The results of operations for the three months ended April 3, 2009 are not necessarily indicative of the results of operations that may be achieved for the full year. Information for quarterly periods is affected by seasonal variations in our fluid handling business. As our customers seek to fully utilize capital spending budgets before the end of the year, historically our shipments have peaked during the fourth quarter. Also, our European operations typically experience a slowdown during the July and August holiday season.



**Table of Contents****3. Warranty Costs**

Estimated expenses related to product warranties are accrued at the time products are sold to customers and recorded as part of cost of sales. Estimates are established using historical information as to the nature, frequency, and average costs of warranty claims.

Warranty activity for the three months ended April 3, 2009 and March 28, 2008 consisted of the following:

	<b>Three Months Ended</b>	
	<b>April 3, 2009</b>	<b>March 28, 2008</b>
Warranty liability at beginning of the period	\$ 3,108	\$ 2,971
Accrued warranty expense, net of adjustments	124	521
Cost of warranty service work performed	(115)	(332)
Foreign exchange translation effect	(161)	127
Warranty liability at end of the period	\$ 2,956	\$ 3,287

**4. Income Taxes**

For the three months ended April 3, 2009, the Company earned approximately \$10.0 million before taxes and had \$3.1 million of income tax expense. The effective tax rate of 31.1 % represents the estimated annual tax rate for the year applied to the current period income before tax plus the tax effect of any significant unusual items, discrete items or changes in tax law. This effective tax rate of 31.1% differs from the U.S. federal statutory tax rate primarily due to international tax rates which are lower than the U.S. tax rate, including the impact of the reduction in 2009 of the Swedish tax rate from 28% to 26.3% that is applied to our Swedish operations.

For the three months ended March 28, 2008, the Company earned \$10.4 million before taxes and had \$3.6 million of income tax expense. This effective tax rate of 34.5% differed from the U.S. statutory rate generally due to net international tax rates which are lower than the U.S. rate offset in part by a net increase in unrecognized tax benefits.

The Company is subject to income tax in the U.S., state and international locations. The Company's significant operations outside the U.S. are located in Germany and Sweden. In Sweden and Germany, tax years from 2003 to 2008 and from 2001 to 2008, respectively, remain subject to examination. In the U.S., tax years from 2005 and beyond generally remain open for examination by U.S. and state tax authorities as well as tax years ending in 1997, 1998, 2000 and 2003 that have U.S. tax attributes available to be carried forward to open or future tax years.

Due to the difficulty in predicting with reasonable certainty when tax audits will be fully resolved and closed, the range of reasonably possible significant increases or decreases in the liability for unrecognized tax benefits that may occur within the next 12 months is difficult to ascertain. Currently, we estimate it is reasonably possible the expiration of various statutes of limitations and resolution of tax audits may reduce our tax expense in the next 12 months from zero to \$1.4 million.

**Table of Contents****5. Earnings per Share**

The following table presents the computation of basic and diluted earnings per share:

	Three Months Ended	
	April 3, 2009	March 28, 2008
<b>Numerator:</b>		
Net income available to common shareholders	\$ 6,861	\$ 6,798
<b>Denominator:</b>		
Weighted-average shares of common stock outstanding - basic	43,211,026	21,885,929
Net income per share - basic	\$ 0.16	\$ 0.31
Weighted-average shares of common stock outstanding - basic	43,211,026	21,885,929
Net effect of potentially dilutive securities <sup>(1)</sup>	101,280	
Weighted-average shares of common stock outstanding - diluted	43,312,306	21,885,929
Net income per share - diluted	\$ 0.16	\$ 0.31

<sup>(1)</sup> Potentially dilutive securities consist of options and restricted stock units.

In the three months ended April 3, 2009, 664,751 potentially dilutive stock options, restricted stock units and deferred stock units were excluded from the calculation of diluted earnings per share, since their effect would have been anti-dilutive.

**6. Comprehensive Income**

	Three Months Ended	
	April 3, 2009	March 28, 2008
Net income	\$ 6,861	\$ 6,798
<b>Other comprehensive (loss) income:</b>		
Foreign currency translation, net of tax	(7,255)	3,897
Unrecognized pension and post-retirement benefit plan costs, net of tax	600	431
Unrecognized gains on hedging activities, net of tax	890	
Other comprehensive (loss) income	(5,765)	4,328
Comprehensive income	\$ 1,096	\$ 11,126

**Table of Contents****7. Inventories**

Inventories consisted of the following:

	April 3, 2009	December 31, 2008
Raw materials	\$ 33,906	\$ 34,074
Work in process	35,444	33,691
Finished goods	22,054	21,600
	91,404	89,365
Less-Customer progress billings	(4,271)	(2,115)
Less-Allowance for excess, slow-moving and obsolete inventory	(6,987)	(6,923)
	\$ 80,146	\$ 80,327

**8. Net Periodic Benefit Cost - Defined Benefit Plans**

The following sets forth the components of net periodic benefit cost of the non-contributory defined benefit pension plans and the Company's other post-retirement employee benefit plans for periods presented.

	Three Months Ended April 3, 2009	March 28, 2008
<b>Pension Benefits - U.S. Plans</b>		
Service cost	\$	\$
Interest cost	3,470	3,576
Expected return on plan assets	(4,566)	(4,774)
Amortization	702	585
Net periodic benefit credit	\$ (394)	\$ (613)
<b>Pension Benefits - Non U.S. Plans</b>		
Service cost	\$ 273	\$ 259
Interest cost	1,046	1,162
Expected return on plan assets	(226)	(377)
Amortization	174	98
Net periodic benefit cost	\$ 1,267	\$ 1,142
<b>Other Post-Retirement Benefits</b>		
Service cost	\$	\$
Interest cost	131	108
Amortization	88	37
Net periodic benefit cost	\$ 219	\$ 145

**9. Shared-Based Payments**

The Company accounts for stock-based awards in accordance with SFAS No. 123R, *Share-Based Payment*, which requires the Company to measure the cost of employee services received in exchange for

**Table of Contents**

all equity awards granted, based on the fair value of the award as of the grant date. Accordingly, for the three months ended April 3, 2009, \$0.6 million of compensation cost and a deferred tax benefit of approximately \$0.2 million were recognized.

**Stock Options**

Stock-based compensation expense for stock option awards is based on the grant-date fair value using the Black-Scholes option pricing model. The following table shows the assumptions used to calculate fair value of stock option awards granted during the three months ended April 3, 2009, as well as the fair value of options granted.

	<b>Three Months Ended April 3, 2009</b>
Assumptions used in Black-Scholes model:	
Expected period that options will be outstanding ( <i>in years</i> )	4.50
Interest rate ( <i>based on U.S. Treasury yields at time of grant</i> )	1.87%
Volatility	32.50%
Dividend yield	
Fair value of options granted	\$ 2.24

Expected volatility is estimated based on the historical volatility of comparable public companies. The Company uses historical data to estimate employee termination within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Since the Company does not have any option exercise history, it has elected to estimate the expected life of an award based upon the SEC-approved simplified method noted under the provisions of Staff Accounting Bulletin No. 107 with the continued use of this method extended under the provisions of Staff Accounting Bulletin No. 110.

Stock option activity for the three months ended April 3, 2009 is as follows:

	Shares under option	Weighted- average exercise price	Remaining contractual term	Aggregate intrinsic value
Options outstanding at December 31, 2008	514,991	\$ 17.93		
Granted	840,117	7.44		
Exercised				
Forfeitures or expirations	(9,373)	18.00		
Options outstanding at April 3, 2009	1,345,735	\$ 11.38	6.63 years	\$ 92,413

Since none of the outstanding stock options have vested, none of them are exercisable at April 3, 2009. As of April 3, 2009, a total of approximately \$3.6 million in unrecognized compensation cost related to stock options, net of estimated forfeitures, is expected to be recognized over a 2.63 year weighted-average period.

**Performance-Based Restricted Stock Units**

During 2009, the Company granted 336,096 performance-based restricted stock units to selected executives and key employees. The vesting of the stock units is based on whether the Company achieves the performance criterion for the year ending December 31, 2009, established by the Compensation Committee of the Board of Directors. If the performance criterion is satisfied, the units are subject to additional time vesting requirements, by which units will vest fully in two equal installments on the fourth and fifth anniversary of the grant date, provided the individual remains an employee during this period. The Company believes it is probable that the performance criterion will be achieved and as such, has begun to recognize compensation expense for the units granted in 2009.

**Table of Contents**

Performance-based award activity for the three months ended April 3, 2009 is as follows:

Nonvested shares	Shares	Weighted- average grant date fair value
Nonvested at December 31, 2008	124,347	\$ 17.89
Granted	336,096	7.44
Vested		
Forfeited	(694)	18.00
Nonvested at April 3, 2009	459,749	\$ 10.25

As of April 3, 2009, there was approximately \$4.0 million of total unrecognized compensation cost related to nonvested performance-based restricted stock units. That cost is expected to be recognized over a period of approximately 4.2 years.

**Other Restricted Stock Units**

The fair value of each restricted stock unit is equal to the market value of a share of common stock on the date of grant. There have been no other restricted stock units granted to employees in 2009. As of April 3, 2009, there was approximately \$0.3 million of total unrecognized compensation cost related to nonvested non-performance based employee restricted stock units. That cost is expected to be recognized over a period of .7 years.

In the three months ended April 3, 2009, there were 5,556 director restricted stock units granted at a fair value of \$9.21 per unit on the date of grant. As of April 3, 2009, there was approximately \$0.5 million of total unrecognized compensation cost related to nonvested director restricted stock units. That cost is expected to be recognized over a period of 2.2 years.

**10. Derivative Instruments**

The Company periodically enters into foreign currency, interest rate swap, and commodity derivative contracts. The Company uses interest rate swaps to manage exposure to interest rate fluctuations. Foreign currency contracts are used to manage exchange rate fluctuations and generally hedge transactions between the Euro and the U.S. dollar. Commodity futures contracts are used to manage costs of raw materials used in the Company's production processes.

The Company enters into such contracts with financial institutions of good standing, and the total credit exposure related to non-performance by those institutions is not material to the operations of the Company. The Company does not enter into contracts for trading purposes.

We designate a portion of our derivative instruments as cash flow hedges for accounting purposes. For all derivatives designated as hedges, we formally document the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for using the hedging instrument. We assess whether the hedging relationship between the derivative and the hedged item is highly effective at offsetting changes in the cash flows both at inception of the hedging relationship and on an ongoing basis. Any change in the fair value of the derivative that is not effective at offsetting changes in the cash flows or fair values of the hedged item is recognized currently in earnings.

Interest rate swaps and other derivative contracts are recognized on the balance sheet as assets and liabilities, measured at fair value on a recurring basis using significant observable inputs, which is Level 2 as defined in the Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, fair value hierarchy. For transactions in which we are hedging the variability of cash flows, changes in the fair value of the derivative are reported in accumulated other comprehensive income, to the extent they are effective at offsetting changes in the hedged item, until earnings are affected by the hedged item. Changes in the fair value of derivatives not designated as hedges are recognized currently in earnings.

---

**Table of Contents**

On June 24, 2008, the Company entered into an interest rate swap with an aggregate notional value of \$75 million whereby it exchanged its LIBOR-based variable rate interest for a fixed rate of 4.1375%. The notional value decreases to \$50 million and then \$25 million on June 30, 2010 and June 30, 2011, respectively, and expires on June 29, 2012. The fair values of the swap agreement were liabilities of \$4.2 million at April 3, 2009 and \$5.0 million at December 31, 2008, and are recorded in *Other long-term liabilities* on the consolidated balance sheets. The swap agreement has been designated as a cash flow hedge, and therefore changes in its fair value are recorded as an adjustment to other comprehensive income. There has been no ineffectiveness related to this arrangement since its inception. At April 3, 2009, the Company expects to reclassify \$2.5 million of net losses on the interest rate swap from accumulated other comprehensive income to earnings during the next twelve months.

The Company had copper and nickel futures contracts with notional values of \$2.6 million at April 3, 2009 and \$3.6 million at December 31, 2008. The fair values of the contracts were liabilities of \$1.1 million at April 3, 2009 and \$2.1 million at December 31, 2008, and are recorded in *Other accrued liabilities* on the consolidated balance sheets. The Company has not elected hedge accounting for these contracts, and therefore changes in the fair value are recognized in earnings. For the three months ended April 3, 2009 and March 28, 2008, respectively, the consolidated statements of operations include \$0.9 million and \$0.6 million of unrealized gains as a result of changes in the fair value of these commodity contracts. Realized losses on these commodity contracts of \$0.4 million were recognized in the three months ended April 3, 2009 and less than \$0.1 million of realized gains were recognized in the three months ended March 28, 2008.

The Company had foreign currency contracts with notional values of \$11.6 million at April 3, 2009 and \$16.5 million at December 31, 2008. The fair values of the contracts were assets of less than \$0.1 million at April 3, 2009 and \$1.1 million at December 31, 2008, and are recorded in *Other current assets* on the consolidated balance sheets. The Company has not elected hedge accounting for these contracts, and therefore changes in the fair value are recognized in earnings. For the three months ended April 3, 2009 and March 28, 2008, respectively, the consolidated statements of operations include \$1.0 million and less than \$0.1 million of unrealized losses as a result of changes in the fair value of these contracts. Realized gains on these contracts of \$0.2 million were recognized in the three months ended April 3, 2009 and \$0.1 million of realized losses were recognized in the three months ended March 28, 2008.

**11. Commitments and Contingencies**

*Asbestos Liabilities and Insurance Assets*

Two of our subsidiaries are each one of many defendants in a large number of lawsuits that claim personal injury as a result of exposure to asbestos from products manufactured with components that are alleged to have contained asbestos. Such components were acquired from third-party suppliers, and were not manufactured by any of our subsidiaries nor were the subsidiaries producers or direct suppliers of asbestos. The manufactured products that are alleged to have contained asbestos generally were provided to meet the specifications of the subsidiaries customers, including the U.S. Navy.

In most instances, the subsidiaries settle asbestos claims for amounts management considers reasonable given the facts and circumstances of each claim. The annual average settlement payment per asbestos claimant has fluctuated during the past several years. Management expects such fluctuations to continue in the future based upon, among other things, the number and type of claims settled in a particular period and the jurisdictions in which such claims arise. To date, the majority of settled claims have been dismissed for no payment.

**Table of Contents**

Claims activity related to asbestos is as follows <sup>(1)</sup>:

	<b>Three Months Ended</b>	
	<b>April 3, 2009</b>	<b>March 28, 2008</b>
Claims unresolved at the beginning of the period	35,357	37,554
Claims filed <sup>(2)</sup>	953	1,406
Claims resolved <sup>(3)</sup>	(1,889)	(1,328)
Claims unresolved at the end of the period	34,421	37,632

(1) Excludes claims filed by one legal firm that have been administratively dismissed.

(2) Claims filed include all asbestos claims for which notification has been received or a file has been opened.

(3) Claims resolved include asbestos claims that have been settled or dismissed or that are in the process of being settled or dismissed based upon agreements or understandings in place with counsel for the claimants.

The Company has projected each subsidiary's future asbestos-related liability costs with regard to pending and future unasserted claims based upon the Nicholson methodology. The Nicholson methodology is the standard approach used by most experts and has been accepted by numerous courts. It is the Company's policy to record a liability for asbestos-related liability costs for the longest period of time that it can reasonably estimate. The Company believes that it can reasonably estimate the asbestos-related liability for pending and future claims that will be resolved in the next 15 years and has recorded that liability as its best estimate. While it is reasonably possible that the subsidiaries will incur costs after this period, the Company does not believe the reasonably possible loss or range of reasonably possible loss is estimable at the current time. Accordingly, no accrual has been recorded for any costs which may be paid after the next 15 years. Defense costs, not expected to be recovered from insurers, associated with asbestos-related liabilities as well as costs incurred related to litigation against the subsidiaries' insurers are expensed as incurred.

Each subsidiary has separate, substantial primary, excess and umbrella insurance coverage resulting from the independent corporate history of each entity. In its evaluation of the insurance asset, the Company used different insurance allocation methodologies for each subsidiary based upon the state law that will or is likely to apply for that subsidiary.

For one of the subsidiaries, although presently no cost sharing or allocation agreement is in place with the Company's excess insurers, the Company believes that, based upon application of an insurance allocation methodology, which is used in certain states, including Florida and Massachusetts, and in accordance with prevailing law, recovery is probable from such insurers for approximately 67% of the liability and defense costs after the exhaustion of primary and umbrella layers of insurance. Presently, this subsidiary is having all of its liability and defense costs covered in full by its primary and umbrella insurance carrier. In addition to the primary and umbrella insurance coverage, the subsidiary has a substantial amount of excess insurance coverage available to it from solvent carriers.

In 2003, the other subsidiary brought legal action against a large number of its insurers and its former parent to resolve a variety of disputes concerning insurance for asbestos bodily injury claims asserted against it. Although none of these defendants insurance companies contested coverage, they disputed the timing, reasonableness and allocation of payments. For this subsidiary it was determined by court ruling in the fourth quarter of 2007, that the allocation methodology mandated by the New Jersey courts will apply. Based upon this ruling and upon a series of other favorable rulings regarding interpretation of certain policy provisions related to deductibles, the number of occurrences, the Company expects to recover approximately 88.5% of all liability and defense costs.



**Table of Contents**

Certain insurance carriers have agreed to settle with this subsidiary by reimbursing the subsidiary for amounts it paid for liability and defense costs as well as entering into formal agreements detailing the payments of future liability and defense costs in an agreed to allocation. In addition, a number of non-settling insurance carriers have paid significant amounts for liability and defense costs paid by the subsidiary in the past and continue to pay a share of costs as they are incurred. Presently, certain insurers are paying approximately 22.7% of costs for current asbestos-related liability and defense costs as they are incurred.

The following table sets forth the cash received from insurance carriers for the three months ended April 3, 2009 and March 28, 2008, respectively. Cash characterized as past cost reduces the Company's outstanding asbestos insurance receivables. Cash characterized as future costs within the 15-year liability range relates to insurance policies that are triggered within the Company's 15-year estimate of asbestos-related liability and are recorded as a reduction of the asbestos insurance asset. Cash characterized as future cost outside the 15-year liability range relates to insurance policies which are not triggered within the Company's 15-year estimate of asbestos-related liability or receipts from insurers previously considered insolvent and are recorded as income in asbestos liability and defense costs.

	<b>Three Months Ended</b>	
	<b>April 3, 2009</b>	<b>March 28, 2008</b>
Past cost	\$ 7,248	\$ 1,748
Future cost:		
Within 15-year liability range		
Outside 15-year liability range		900
<b>Total insurance proceeds received</b>	<b>\$ 7,248</b>	<b>\$ 2,648</b>

The Company has established reserves of \$353.3 million and \$357.3 million as of April 3, 2009 and December 31, 2008, respectively, for the probable and reasonably estimable asbestos-related liability cost it believes the subsidiaries will pay through the next 15 years. It has also established recoverables of \$300.4 million and \$304.0 million as of April 3, 2009 and December 31, 2008, respectively, for the insurance recoveries that are deemed probable during the same time period. Net of these recoverables, the Company's expected cash outlay on a non-discounted basis for asbestos-related bodily injury claims over the next 15 years was \$52.9 million and \$53.3 million as of April 3, 2009 and December 31, 2008, respectively. In addition the Company has recorded a receivable for liability and defense costs it had previously paid in the amount of \$36.9 million and \$36.4 million as of April 3, 2009 and December 31, 2008, respectively, for which insurance recovery is deemed probable. The Company has recorded the reserves for the asbestos liabilities as Accrued asbestos liability and Long-term asbestos liability and the related insurance recoveries as Asbestos insurance asset and Long-term asbestos insurance asset while the receivable for previously paid liability and defense costs is recorded in Asbestos insurance receivable in the accompanying condensed consolidated balance sheets.

The expense related to these liabilities and legal defense was \$1.6 million, net of estimated insurance recoveries, for the three months ended April 3, 2009 compared to \$0.3 million for the three months ended March 28, 2008, respectively. Legal costs related to the subsidiaries' action against their asbestos insurers was \$3.0 million for the three months ended April 3, 2009 compared to \$3.1 million for the three months ended March 28, 2008, respectively.

Management's analyses are based on currently known facts and a number of assumptions. However, projecting future events, such as new claims to be filed each year, the average cost of resolving each claim, coverage issues among layers of insurers, the method in which losses will be allocated to the various insurance policies, interpretation of the effect on coverage of various policy terms and limits and their interrelationships, the continuing solvency of various insurance companies, the amount of remaining insurance available, as well as the numerous uncertainties inherent in asbestos litigation could cause the actual liabilities and insurance recoveries to be higher or lower than those projected or recorded which could materially affect our financial condition, results of operations or cash flow.

---

**Table of Contents**

*Guarantees*

At April 3, 2009, there were \$13.1 million of letters of credit outstanding. Additionally, at April 3, 2009, we had issued \$8.3 million of bank guarantees securing primarily customer prepayments, performance, and product warranties in our European operations.

*General Litigation*

On June 3, 1997, one of our subsidiaries was served with a complaint in a case brought by Litton Industries, Inc. in the Superior Court of New Jersey which alleges damages in excess of \$10.0 million incurred as a result of losses under a government contract bid transferred in connection with the sale of its former Electro-Optical Systems business. In the third quarter of 2004, this case was tried and the jury rendered a verdict of \$2.1 million for the plaintiffs. Plaintiffs have argued that they are entitled to a refund of their attorney's fees and costs of trial as a matter of law and contract. The subsidiary believes it is not obligated to pay these costs. In November 2006, the Court entered an Amended Final Judgment in favor of the plaintiffs in the amount of \$8.9 million, including prejudgment interest. This amount plus accrued interest is recorded in "Other liabilities" in the accompanying consolidated balance sheets. The judgment is secured by a bond as well as a letter of credit under our existing credit facility. Both the subsidiary and the plaintiffs appealed. On January 28, 2008, the Appellate Division of the New Jersey Superior Court affirmed the total award and ordered a new trial on certain portions of the plaintiffs' claim. The subsidiary and the plaintiffs each petitioned for certification of the judgment which was granted by the Supreme Court of New Jersey on May 15, 2008 and a hearing with oral argument occurred on December 2, 2008. The Supreme Court will issue an opinion at its convenience. The subsidiary intends to continue to defend this matter vigorously.

In April 1999, the Company's Imo Industries subsidiary resolved through a settlement the matter of *Young v. Imo Industries Inc.* that was pending in the United States District Court for the District of Massachusetts. This matter had been brought on behalf of a class of retirees of one of the subsidiary's divisions relating to retiree health care obligations. On June 15, 2005, a motion was filed seeking an order that certain of the features of the plan as implemented by the Company were in violation of the settlement agreement. On December 16, 2008, the parties executed a Memorandum of Understanding, memorializing the principal terms of a new settlement agreement that will resolve the litigation in its entirety. As a result of the parties' efforts in this regard, the case has been removed from the trial calendar, pending the filing of a final settlement agreement with the court. The subsidiary is actively negotiating the Amended and Restated Settlement Agreement, which will supersede and replace the Stipulation and Agreement of Settlement and Dismissal of Claims entered into by the parties on November 30, 1998. At April 3, 2009, the Company's consolidated balance sheet includes an accumulated post retirement benefit obligation of \$2.4 million for this matter.

The Company is also involved in various other pending legal proceedings arising out of the ordinary course of the Company's business. None of these legal proceedings are expected to have a material adverse effect on the financial condition, results of operations or cash flow of the Company. With respect to these proceedings and the litigation and claims described in the preceding paragraphs, management of the Company believes that it will either prevail, has adequate insurance coverage or has established appropriate reserves to cover potential liabilities. Any costs that management estimates may be paid related to these proceedings or claims are accrued when the liability is considered probable and the amount can be reasonably estimated. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adversely to the Company, there could be a material adverse effect on the financial condition, results of operations or cash flow of the Company.

---

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and notes included in Part I, Item 1 Financial Statements of this quarterly report and the audited financial statements and related footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 6, 2009.*

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements contained in this Form 10-Q that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 21E of the Exchange Act. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this Form 10-Q is filed with the SEC. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements regarding: projections of revenue, profit margins, expenses, tax provisions and tax rates, earnings or losses from operations, impact of foreign exchange rates, cash flows, pension and benefit obligations and funding requirements, synergies or other financial items; plans, strategies and objectives of management for future operations including statements relating to potential acquisitions, compensation plans, purchase commitments; developments, performance or industry or market rankings relating to products or services; future economic conditions or performance; the outcome of outstanding claims or legal proceedings including asbestos-related liabilities and insurance coverage litigation; potential gains and recoveries of costs; assumptions underlying any of the foregoing; and any other statements that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future. Forward-looking statements may be characterized by terminology such as believe, anticipate, should, would, intend, plan, will, expect, estimate, project, positioned, strategy, and similar expressions based on assumptions and assessments made by our management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including but not limited to the following:

risks associated with our international operations;

significant movements in foreign currency exchange rates;

changes in the general economy, including the current global financial crisis and economic downturn, as well as the cyclical nature of our markets;

availability and cost of raw materials, parts and components used in our products;

the competitive environment in our industry;

our ability to identify, acquire and successfully integrate attractive acquisition targets;

the amount of and our ability to estimate our asbestos-related liabilities;

material disruption at any of our significant manufacturing facilities;

the solvency of our insurers and the likelihood of payment for asbestos-related claims;

- 14 -

**Table of Contents**

our ability to manage and grow our business and execution of our business and growth strategies;

loss of key management;

our ability and the ability of customers to access required capital at a reasonable cost;

our ability to expand our business in our targeted markets;

our ability to cross-sell our product portfolio to existing customers;

the level of capital investment and expenditures by our customers in our strategic markets;

our financial performance; and

others risks and factors, listed under the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 6, 2009.

Any such forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ materially from those envisaged by such forward-looking statements. These forward-looking statements speak only as of the date this Form 10-Q is filed with the SEC. We do not assume any obligation and do not intend to update any forward-looking statement except as required by law.

**Overview**

We are a global supplier of a broad range of fluid handling products, including pumps, fluid handling systems and controls, and specialty valves. We believe that we are a leading manufacturer of rotary positive displacement pumps, which include screw pumps, gear pumps and progressive cavity pumps. We have a global manufacturing footprint, with production facilities in Europe, North America and Asia, as well as worldwide sales and distribution channels. Our products serve a variety of applications in five strategic markets: commercial marine, oil and gas, power generation, global navy and general industrial. We design and engineer our products to high quality and reliability standards for use in critical fluid handling applications where performance is paramount. We also offer customized fluid handling solutions to meet individual customer needs based on our in-depth technical knowledge of the applications in which our products are used. Our products are marketed principally under the Allweiler, Fairmount, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith brand names. We believe that our brands are widely known and have a premium position in our industry. Allweiler, Houttuin, Imo and Warren are among the oldest and most recognized brands in the markets in which we participate, with Allweiler dating back to 1860.

We believe that one of our most significant competitive advantages comes through a comprehensive set of tools and processes we employ that we refer to as the Colfax Business System ( CBS ). CBS is a disciplined strategic planning and execution methodology designed to achieve excellence and world-class financial performance in all aspects of our business by focusing on the *Voice of the Customer* and continuously improving quality, delivery and cost.

## **Table of Contents**

### *Outlook*

The recent economic downturn has not had a significant impact on our financial position, results of operations or liquidity as of the date of the filing of this Form 10-Q; however, our order rates have been affected and if current economic conditions continue, our business results will be negatively affected. We continue to monitor the financial markets and general global economic conditions and presently expect the following market conditions throughout the remainder of 2009:

In the commercial marine industry, we expect international trade and demand for crude oil and other commodities as well as the age of the global merchant fleet to continue to create demand for new ship construction. We expect new orders to be significantly lower than in the past two years and we are also likely to have additional order cancellations. We expect sales to grow primarily from existing orders, but at a lower growth rate than we experienced in the first quarter of 2009. We also believe the increase in the size of the global fleet will create an opportunity to supply aftermarket parts and service.

We expect activity within the crude oil market to remain favorable as long term capacity constraints and global demand drive further development of heavy oil fields, but we are experiencing project delays. In pipeline applications, we expect demand for our highly efficient products to remain strong as our customers continue to focus on total cost of ownership. In refinery applications, we believe a reduction in capital investment by our customers will reduce the demand for our products in 2009.

In the power generation industry, we expect activity in Asia and the Middle East to remain strong as economic growth and fundamental undersupply of power generation capacity continues to drive investment in energy infrastructure projects. In the world's developed economies, we expect efficiency improvements will continue to drive demand.

In the U.S., we expect Congress to continue to appropriate funds for new ship construction as older naval vessels are decommissioned. We also expect increased demand for integrated fluid handling systems for both new ship platforms and existing ship classes that reduce operating costs and improve efficiency as the U.S. Navy seeks to man vessels with fewer personnel. Outside of the U.S., we expect other sovereign nations will continue to expand their fleets as they address national security concerns. We expect both increased sales and orders over the remainder of 2009.

In the general industrial market, we expect that global infrastructure development will drive capital investment over the long term and will benefit local suppliers as well as international exporters of fluid handling equipment. However, demand has softened in several portions of the general industrial market, including chemical, building products, diesel engine and distribution, primarily in Europe and North America.

Based on declining orders and our culture of continuous improvement, we began and completed several cost reduction programs during the first quarter of 2009. We closed our 20,000 square foot Aberdeen, NC repair facility and consolidated it within our Sanford, NC location. We also completed headcount reductions at four facilities. In total, these actions resulted in a headcount reduction of approximately 80 associates and one time costs of approximately \$0.7 million of which approximately \$0.2 million is a non-cash asset impairment charge.

---

## **Table of Contents**

We are also participating in the German government-sponsored furlough program in which the government pays the wage-related costs of workers that work less than a full work week. We remain responsible for social costs and taxes. As of May 1, 2009, we had approximately 628 associates participating in this program who are working three to four days per week in lieu of the standard five-day work week. In addition to these programs, we do not plan to renew contracts for approximately 80 contract workers. We continue to monitor our order rates and will adjust our manufacturing capacity and cost structure as demand warrants.

### **Key Performance Measures**

The discussion of our results of operations that follows focuses on some of the key financial measures that we use to evaluate our business. We evaluate growth using several measures described below, including net sales, orders and order backlog. Our sales growth is affected by many factors, particularly the impact of acquisitions, the impact of fluctuating foreign exchange rates and growth in our existing businesses. To facilitate the comparison between reporting periods, we describe the impact of each of these three factors on our sales growth below in tabular format under the heading Sales and Orders.

Orders and order backlog are highly indicative of our future revenue and thus a key measure of anticipated performance. Orders consist of orders for products or services from our customers. Order backlog consists of unfilled orders.

### **Seasonality**

We experience seasonality in our fluid handling business. As our customers seek to fully utilize capital spending budgets before the end of the year, our shipments generally peak during the fourth quarter. Also, our European operations typically experience a slowdown during the July and August holiday season.

### **Results of Operations**

#### *Items Affecting Comparability of Reported Results*

Our results for the three months ended April 3, 2009 includes the impact of four additional business days as compared to the first quarter of 2008. The second and fourth quarters of 2009 will have two and four fewer business days, respectively, than the comparable periods in 2008. The comparability of our operating results for the three months ended April 3, 2009 and March 28, 2008 is affected by the following significant items:

#### Foreign Currency Fluctuations

A significant portion of our sales, approximately 71% for the three months ended April 3, 2009, is denominated in currencies other than the U.S. dollar, most notably the Euro and the Swedish Krona. Because much of our manufacturing and employee costs are outside the U.S., a significant portion of our costs are also denominated in currencies other than the U.S. dollar. Changes in foreign exchange rates can impact our results and is quantified, when significant, in our discussion of the results of our operations.

#### Asbestos-related Expense

Asbestos-related expense includes all asbestos-related costs and is comprised of projected indemnity cost, changes in the projected asbestos liability, changes in the probable insurance recovery of the projected asbestos-related liability, changes in the probable recovery of asbestos liability and defense costs paid in prior periods, and actual defense costs expensed in the period ( Asbestos liability and defense costs ). It also includes legal costs related to the actions against two of our subsidiaries respective insurers and a former parent company of one of the subsidiaries ( Asbestos coverage litigation expenses ).

**Table of Contents**

The table below presents asbestos-related expense for the periods indicated:

(Amounts in millions)	Three Months Ended	
	April 3, 2009	March 28, 2008
Asbestos liability and defense costs	\$ 1.6	\$ 0.3
Asbestos coverage litigation expenses	3.0	3.1
<b>Asbestos-related expense</b>	<b>\$ 4.6</b>	<b>\$ 3.4</b>

Asbestos liability and defense costs were \$1.6 million for the three months ended April 3, 2009 compared to \$0.3 million for the three ended March 28, 2008. The increase in asbestos liability and defense costs for the quarter ended April 3, 2009 relates primarily to receipt of \$0.9 million in the quarter ended March 28, 2008, from an insurer previously considered insolvent, which resulted in a gain in that period.

Legal costs related to the subsidiaries' action against their asbestos insurers were \$3.0 million for the three months ended April 3, 2009 compared to \$3.1 million for the three months ended March 28, 2008. See Note 11 to our Condensed Consolidated Financial Statements for a further discussion of recent developments in asbestos litigation.

*Sales and Orders*

Our sales growth is affected by many factors including the impact of fluctuating foreign exchange rates and growth in our existing businesses. To facilitate the comparison between reporting periods, we disclose the impact of each of these factors to the extent they impact the periods presented. The impact of foreign currency translation is the difference between sales from existing businesses valued at current-year foreign exchange rates and the same sales valued at prior-year foreign exchange rates. Sales growth from existing businesses excludes the impact of foreign exchange rate fluctuations, thus providing a measure of growth due to factors such as price, mix and volume.

Orders and order backlog are highly indicative of our future revenue and thus key measures of anticipated performance. Orders consist of orders for products or services from our customers, net of cancellations, during a period. Order backlog consists of unfilled orders at the end of a period. The components of order growth are presented on the same basis as sales growth.



**Table of Contents**

The following tables present components of our sales and order growth, as well as sales by fluid handling product for the periods indicated:

(Amounts in millions)	Sales		Orders		Backlog at	
	\$	%	\$	%	Period End	
<b>Three Months Ended March 28, 2008</b>	<b>\$ 130.7</b>		<b>\$ 180.3</b>		<b>\$ 353.6</b>	
<i>Components of Growth:</i>						
Existing Businesses	23.4	17.9%	(45.9)	(25.5)%	(9.8)	(2.8)%
Foreign Currency Translation	(17.8)	(13.6)%	(13.6)	(7.5)%	(38.2)	(10.8)%
<b>Total Growth</b>	<b>5.6</b>	<b>4.3%</b>	<b>(59.5)</b>	<b>(33.0)%</b>	<b>(48.0)</b>	<b>(13.6)%</b>
<b>Three Months Ended April 3, 2009</b>	<b>\$ 136.3</b>		<b>\$ 120.8</b>		<b>\$ 305.6</b>	

(Amounts in millions)	Three Months Ended	
	April 3, 2009	March 28, 2008
<b>Net Sales by Product:</b>		
Pumps, including aftermarket parts and service	\$ 121.4	\$ 113.8
Systems, including installation service	12.5	12.3
Valves	1.6	1.6
Other	0.8	3.0
<b>Total net sales</b>	<b>\$ 136.3</b>	<b>\$ 130.7</b>

As detailed above, for the three months ended April 3, 2009, sales increased by \$5.6 million, or 4.3% over the three months ended March 28, 2008. Sales from existing businesses were up 17.9%, but were substantially offset by a negative currency translation effect of 13.6%, primarily due to the strengthening of the U.S. dollar against the Euro. Sales growth from existing businesses was primarily attributable to increased demand in the commercial marine, global navy, power generation and oil and gas end markets.

Orders for the three months ended April 3, 2009 of \$120.8 million declined \$59.5 million, or 33.0%, over the three months ended March 28, 2008. Orders from existing businesses declined 25.5% and currency translation accounted for an additional decrease of 7.5%. The decline in orders from existing businesses was primarily attributable to a significant decline in demand in the commercial marine end market as well as softening demand in the general industrial end market. These declines were partially offset by strong order growth in the global navy and oil and gas end markets. Backlog as of April 3, 2009 of \$305.6 million decreased \$9.8 million, or 2.8%, excluding the impact of foreign currency translation, as compared to \$353.6 million at March 28, 2008. Since December 31, 2008, backlog decreased \$17.7 million, or 5.2%, excluding the impact of foreign currency translation which accounted for the remaining \$14.0 million of the decrease.

**Table of Contents***Gross Profit*

The following table presents our gross profit figures for the periods indicated:

(Amounts in millions)	Three Months Ended	
	April 3, 2009	March 28, 2008
Gross Profit	\$ 48.0	\$ 48.2
Gross Profit Margin	35.2%	36.9%

Gross profit of \$48.0 million for the three months ended April 3, 2009 decreased slightly from \$48.2 million for the three months ended March 28, 2008. Gross profit from existing businesses increased \$6.4 million, but was more than offset by a \$6.6 million negative impact of foreign exchange rates. Gross profit margin decreased 170 basis points to 35.2% for the three months ended April 3, 2009 from 36.9% for the three months ended March 28, 2008. The margin decline was primarily driven by decreased production resulting in lower absorption of manufacturing costs as well as a mix shift to European sales, which more than offset favorable pricing and product mix in the commercial marine and general industrial markets.

*Selling, General and Administrative Expenses ( SG&A )*

The following table presents our selling, general and administrative expenses for the periods indicated:

(Amounts in millions)	Three Months Ended	
	April 3, 2009	March 28, 2008
SG&A Expenses	\$ 30.2	\$ 28.5
SG&A Expenses as a percentage of sales	22.1%	21.8%

Selling, general and administrative expenses increased \$1.7 million to \$30.2 million for the three months ended April 3, 2009 compared to \$28.5 million for the three months ended March 28, 2008. The impact of foreign exchange rates reduced SG&A expenses by \$3.2 million. Excluding this impact, selling, general and administrative expenses for the three months ended April 3, 2009 were \$4.8 million higher than the prior year period. Contributing to this increase were \$1.3 million of increased selling expense, including commissions, \$1.6 million of stock compensation expense and other costs associated with becoming a public company, and \$0.7 million of higher unrealized losses on raw material futures and foreign currency contracts for which we did not elect hedge accounting. Additionally, \$0.5 million of severance costs and a \$0.2 million asset impairment charge were recorded in the three months ended April 3, 2009 related to cost reduction initiatives.

*Operating Income*

The table below presents operating income data for the periods indicated:

(Amounts in millions)	Three Months Ended	
	April 3, 2009	March 28, 2008
Operating income	\$ 11.8	\$ 14.9
Operating margin	8.7%	11.4%

Operating income for the three months ended April 3, 2009 declined \$3.1 million to \$11.8 million from \$14.9 million for the three months ended March 28, 2008. This decrease was primarily due to a \$3.3

---

## **Table of Contents**

million negative impact from foreign exchange rates, with higher gross profit from existing businesses offset by higher selling, general and administrative expenses and legacy asbestos expenses. Operating margin declined to 8.7% for the three months ended April 3, 2009 compared to 11.4% for the three months ended March 28, 2008.

### *Interest Expense*

For a description of our outstanding indebtedness, please refer to [Liquidity and Capital Resources](#) below.

Interest expense for the three months ended April 3, 2009 decreased \$2.7 million to \$1.8 million from \$4.5 million for the three months ended March 28, 2008. The decrease was primarily due to lower debt levels during the first three months of 2009 compared to the same period in 2008 as a result of debt repayments of \$105.4 million with a portion of the IPO proceeds in the second quarter of 2008. A decrease in the weighted-average interest rate on our variable rate borrowings from 7.1% in 2008 to 5.6% in 2009 contributed approximately \$0.4 million to the decrease in interest expense.

### *Provision for Income Taxes*

The effective income tax rate for the three months ended April 3, 2009 was 31.1% as compared to an effective tax rate of 34.5% for the three months ended March 28, 2008. Our effective tax rate for the three months ended April 3, 2009 was lower than the U.S. federal statutory rate primarily due to international tax rates which are lower than the U.S. tax rate, including the impact of the reduction of the Swedish tax rate from 28% to 26.3% that is applied to our Swedish operations. For the three months ended March 28, 2008, the effective tax rate of 34.5% was lower than the U.S. statutory rate primarily due to net international tax rates that are lower than the U.S. rate offset in part by a net increase in unrecognized tax benefits.

## **Liquidity and Capital Resources**

### *Overview*

Historically, we have financed our capital and working capital requirements through a combination of cash flows from operating activities and borrowings under our credit facility. We expect that our primary ongoing requirements for cash will be for working capital, funding for potential acquisitions, capital expenditures, asbestos-related outflows and pension plan funding. If additional funds are needed for strategic acquisitions or other corporate purposes, we believe we could raise additional funds in the form of debt or equity. As of April 3, 2009, we had approximately \$137 million available on our revolver loan and we had \$34.4 million of cash.

### *Borrowings*

During the three months ended April 3, 2009, we repaid \$1.3 million of the outstanding balance of our Term A Note, leaving \$95.0 million outstanding at the end of the period. At April 3, 2009, the interest rate on the Term A Note was 2.77% inclusive of 2.25% margin and the annual commitment fee on our \$150.0 million revolver was 0.4%. At April 3, 2009, there was \$13.1 million outstanding on the letter of credit sub-facility, leaving approximately \$137 million available under the revolver loan. Of the total \$137 million available, it is unlikely that we would be able to draw on Lehman Brothers' \$6.0 million commitment due to their bankruptcy and resulting default under the terms of the revolver.

Substantially all assets and stock of the Company's domestic subsidiaries and 65% of the shares of certain European subsidiaries are pledged as collateral against borrowings under our credit agreement. Certain European assets are pledged against borrowings directly made to our European subsidiary. Our credit agreement contains customary covenants limiting the Company's ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase Company stock, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, our credit

**Table of Contents**

agreement contains financial covenants requiring the Company to maintain a total leverage ratio of not more than 3.25 to 1.0 and a fixed charge coverage ratio of not less than 1.5 to 1.0, measured at the end of each quarter. If the Company does not comply with the various covenants under our credit agreement and related agreements, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding under the Term A Note and revolver and foreclose on the collateral. The Company believes it is in compliance with all such covenants as of April 3, 2009 and expects to be in compliance for the next 12 months.

*Comparative Cash Flows*

The table below presents selected cash flow data for the periods indicated:

(Amounts in millions)	Three Months Ended	
	April 3, 2009	March 28, 2008
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 10.7</b>	<b>\$ (11.1)</b>
Purchases of fixed assets	(3.1)	(3.0)
Other sources, net		0.1
<b>Net cash used in investing activities</b>	<b>\$ (3.1)</b>	<b>\$ (2.9)</b>
Repayment of borrowings	(1.3)	
Payment of IPO-related costs		(1.1)
Other uses, net	(0.2)	(0.2)
<b>Net cash used in financing activities</b>	<b>\$ (1.5)</b>	<b>\$ (1.3)</b>

Cash flows from operating activities can fluctuate significantly from period to period as working capital needs, the timing of payments for items such as pension funding decisions and other items impact reported cash flows. Changes in significant operating cash flow items are discussed below.

Cash paid for asbestos liabilities (net of cash received from settlements with our asbestos insurance carriers), including the disposition of claims, defense costs and legal expenses related to litigation against our insurers, was a significant cash outflow.

For the three months ended April 3, 2009 and March 28, 2008 net cash paid for asbestos liabilities, net of insurance settlements received, was \$1.1 million and \$8.2 million, respectively. One of our subsidiaries received \$7.2 million during the three months ended April 3, 2009 as reimbursement for past cost, which reduced the Company's outstanding insurance receivables. The subsidiary received approximately \$2.6 million during the three months ended March 28, 2008, of which approximately \$1.7 million represents reimbursement of past cost, which reduced the Company's outstanding insurance receivables, and approximately \$0.9 million which was a receipt from an insurer that was previously considered insolvent and, as such, was recorded as income.

Funding requirements of our defined benefit plans, including both pensions and other post-retirement benefits, can vary significantly among periods due to changes in the fair value of plan assets and actuarial assumptions. For the three months ended April 3, 2009 and March 28, 2008, cash contributions for defined benefit plans were \$1.3 million and \$1.0 million, respectively.

---

**Table of Contents**

Changes in working capital also affected the operating cash flows for the periods presented. We define working capital as trade receivables plus inventories less accounts payable.

Working capital, excluding the effect of foreign currency translation, increased \$1.3 million from December 31, 2008 to April 3, 2009. A \$10.3 million reduction in trade receivables was more than offset by an \$8.2 million decrease in accounts payable and a \$3.4 million increase in inventory.

Net working capital as a percentage of sales is a key ratio that we use to measure working capital efficiency. For the three months ended April 3, 2009 and March 28, 2008, net working capital as a percentage of annualized sales was 23.4% and 23.6%, respectively.

Investing activities consist primarily of purchases of fixed assets.

In all periods presented, capital expenditures were invested in new and replacement machinery, equipment and information technology. We generally target capital expenditures at approximately 2.0% to 2.5% of revenues.

Financing cash flows consist primarily of borrowings and repayments of indebtedness, payment of dividends to shareholders and redemptions of stock.

During the three months ended April 3, 2009, we repaid \$1.3 million of long-term borrowings.

During the first three months of 2008, we paid IPO-related costs of \$1.1 million.

**Critical Accounting Estimates**

The methods, estimates and judgments we use in applying our critical accounting policies have a significant impact on the results we report in our financial statements. We evaluate our estimates and judgments on an ongoing basis. Our estimates are based upon our historical experience, our evaluation of business and macroeconomic trends, and information from other outside sources as appropriate. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what our management anticipates and different assumptions or estimates about the future could change our reported results.

There have been no significant changes for the three months ended April 3, 2009 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 6, 2009.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk from changes in interest rates, foreign currency exchange rates and commodity prices that could impact our results of operations and financial condition. We address our exposure to these risks through our normal operating and financing activities.

Information concerning market risk for the three months ended April 3, 2009 is discussed below.

---

## **Table of Contents**

### *Interest Rate Risk*

We are subject to exposure from changes in interest rates based on our financing activities. Under our credit facility, all of our borrowings at April 3, 2009 are variable rate facilities based on LIBOR or EURIBOR. In order to mitigate our interest rate risk, we periodically enter into interest rate swap or collar agreements. A hypothetical increase in the interest rate of 1.00% on the portion of our variable rate debt that is not hedged during the three months ended April 3, 2009 would have increased our interest cost by approximately \$0.1 million.

On June 24, 2008, we entered into an interest rate swap with an aggregate notional value of \$75.0 million whereby we exchanged our LIBOR-based variable rate interest for a fixed rate of 4.1375%. The notional value decreases to \$50 million and then \$25 million on June 30, 2010 and June 30, 2011, respectively and expires on June 29, 2012. The fair value of the swap agreement, based on third-party quotes, was a liability of \$4.2 million at April 3, 2009. The swap agreement has been designated as a cash flow hedge, and therefore changes in its fair value are recorded as an adjustment to other comprehensive income.

### *Exchange Rate Risk*

We have manufacturing sites throughout the world and sell our products globally. As a result, we are exposed to movements in the exchange rates of various currencies against the U.S. dollar and against the currencies of other countries in which we manufacture and sell products and services. During the three months ended April 3, 2009, approximately 71% of our sales were derived from operations outside the U.S., with approximately 67% generated from our European operations. In particular, we have more sales in European currencies than we have expenses in those currencies. Therefore, when European currencies strengthen or weaken against the U.S. dollar, operating profits are increased or decreased, respectively. To assist with the matching of revenues and expenses and assets and liabilities in foreign currencies, we may periodically enter into derivative instruments such as cross currency swaps or forward contracts. To illustrate the potential impact of changes in foreign currency exchange rates, assuming a 10% increase in average foreign exchange rates compared to the U.S. dollar, income before income taxes for the three months ended April 3, 2009, would have increased by \$1.5 million.

### *Commodity Price Risk*

We are exposed to changes in the prices of raw materials used in our production processes. Commodity futures contracts are periodically used to manage such exposure. As of April 3, 2009, we had copper and nickel futures contracts with notional values of \$2.6 million that were in an unrealized loss position of \$1.1 million. We have not elected hedge accounting for these futures contracts, and therefore changes in their fair value are included in net income.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed in this report has been recorded, processed, summarized and reported as of the end of the period covered by this report.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange

---

**Table of Contents**

Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commissions rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f)) identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Two of our subsidiaries are each one of many defendants in a large number of lawsuits that claim personal injury as a result of exposure to asbestos from products manufactured with components that are alleged to have contained asbestos. Such components were acquired from third-party suppliers, and were not manufactured by any of our subsidiaries nor were the subsidiaries producers or direct suppliers of asbestos. The manufactured products that are alleged to have contained asbestos generally were provided to meet the specifications of the subsidiaries customers, including the U.S. Navy. Of the approximately 35,400 pending claims, approximately 14,000 of such claims have been brought in various federal and state courts in Mississippi; approximately 3,100 of such claims have been brought in the Supreme Court of New York County, New York; approximately 100 of such claims have been brought in the Superior Court, Middlesex County, New Jersey; and approximately 1,600 claims have been filed in state courts in Michigan and the U.S. District Court, Eastern and Western Districts of Michigan. The remaining pending claims have been filed in state and federal courts in Alabama, California, Kentucky, Louisiana, Pennsylvania, Rhode Island, Texas, Virginia, the U.S. Virgin Islands and Washington.

One of our foreign subsidiaries made a small number of sales from 2003 through 2007 totaling approximately \$60,000 in the aggregate to two customers in Cuba which may have been made in violation of regulations of the U.S. Treasury Department's Office of Foreign Assets Control, or OFAC. Cuba is also identified by the U.S. State Department as a state sponsor of terrorism. We have submitted a disclosure report to OFAC regarding these transactions. On December 5, 2008, the Company executed a tolling agreement with the OFAC extending the statute of limitations for the investigation until May 1, 2010. As a result of these sales, we may be subject to fines or other sanctions.

On June 3, 1997, one of our subsidiaries was served with a complaint in a case brought by Litton Industries, Inc. in the Superior Court of New Jersey which alleges damages in excess of \$10.0 million incurred as a result of losses under a government contract bid transferred in connection with the sale of its former Electro-Optical Systems business. In the third quarter of 2004 this case was tried and the jury rendered a verdict of \$2.1 million for the plaintiffs. Plaintiffs have argued that they are entitled to a refund of their attorney's fees and costs of trial as a matter of law and contract. The subsidiary believes it is not obligated to pay these costs. In November 2006, the Court entered an Amended Final Judgment in favor of the plaintiffs in the amount of \$8.9 million, including prejudgment interest. This amount plus accrued interest is recorded in Other liabilities in our consolidated balance sheets. The judgment is secured by a bond as well as a letter of credit under our existing credit facility. Both the subsidiary and the plaintiffs appealed. On January 28, 2008, the Appellate Division of the New Jersey Superior Court affirmed the total award and ordered a new trial on certain portions of the plaintiffs' claim. The subsidiary and the plaintiffs each petitioned for certification of the judgment which was granted by the Supreme Court of New Jersey on May 15, 2008 and a hearing with oral argument occurred on December 2, 2008. The Supreme Court will issue an opinion at its convenience. The subsidiary intends to continue to defend this matter vigorously.

In April 1999 the Company's Imo Industries subsidiary resolved through a settlement the matter of Young v. Imo Industries Inc. that was pending in the United States District Court for the District of

## **Table of Contents**

Massachusetts. This matter had been brought on behalf of a class of retirees of one of the subsidiary's divisions relating to retiree health care obligations. On June 15, 2005, a motion was filed seeking an order that certain of the features of the plan as implemented by the Company were in violation of the Settlement Agreement. On December 16, 2008, the parties executed a Memorandum of Understanding, memorializing the principal terms of a new settlement agreement that will resolve the litigation in its entirety. As a result of the parties' efforts in this regard, the case has been removed from the trial calendar, pending the filing of a final settlement agreement with the court. The subsidiary is actively negotiating the Amended and Restated Settlement Agreement, which will supersede and replace the Stipulation and Agreement of Settlement and Dismissal of Claims entered into by the parties on November 30, 1998. At April 3, 2009, the Company's consolidated balance sheet includes an accumulated post retirement benefit obligation of \$2.4 million for this matter.

In addition to the litigation and matters noted above, we and our subsidiaries are from time to time subject to, and are presently involved in, litigation or other legal proceedings arising out of the ordinary course of business. These matters primarily involve claims for damages arising out of the use of the subsidiaries' products, some of which include claims for punitive as well as compensatory damages. None of these legal proceedings are expected to have a material adverse effect on our financial condition, results of operations or cash flow. With respect to these proceedings and the litigation and claims described in the preceding paragraphs, our management believes that we will either prevail, have adequate insurance coverage or have established appropriate reserves. Any costs that management estimates may be paid related to these proceedings or claims are accrued when the liability is considered probable and the amount can be reasonably estimated. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adversely to us, there could be a material adverse effect on our financial condition, results of operations or cash flow.

### **Item 1A. Risk Factors**

An investment in our common stock involves a high degree of risk. You should carefully consider the risks set forth in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 6, 2009.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

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

None.

### **Item 5. Other Information**

None.



**Table of Contents**

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
10.1	Employment Agreement between Colfax Corporation and William E. Roller*
10.2	Amendment to the Employment Agreement between Colfax Corporation and William E. Roller*
10.3	Employment Agreement between Colfax Corporation and Mario E. DiDomenico*
10.4	Amendment to the Employment Agreement between Colfax Corporation and Mario E. DiDomenico*
31.01	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.02	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* These agreements are being filed at this time due to the determination by the registrant during the period covered by this report that these individuals are named executive officers of the registrant.

**Table of Contents**

**SIGNATURES**

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

Registrant: Colfax Corporation

By:

/s/ JOHN A. YOUNG  
**John A. Young**

President and Chief Executive Officer  
(Principal Executive Officer)

May 7, 2009

/s/ G. SCOTT FAISON  
**G. Scott Faison**

Senior Vice President, Finance and Chief  
Financial Officer (Principal Financial and  
Accounting Officer)

May 7, 2009