

Colfax CORP
Form 10-Q
August 04, 2009
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 July 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)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

8730 Stony Point Parkway, Suite 150
Richmond, Virginia
(Address of principal executive offices)
(804) 560-4070
(Registrant's telephone number, including area code)

23235
(Zip Code)

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

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

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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 July 3, 2009, there were 43,229,104 shares of the registrant's common stock, par value \$.001 per share, outstanding.

COLFAX CORPORATION
FORM 10-Q
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

COLFAX CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 Dollars in thousands, except per share amounts
 (unaudited)

	Three Months Ended		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Net sales	\$ 129,185	\$ 161,431	\$ 265,508	\$ 292,082
Cost of sales	84,630	104,654	172,938	187,127
Gross profit	44,555	56,777	92,570	104,955
Initial public offering related costs	-	57,017	-	57,017
Selling, general and administrative expenses	28,586	35,776	58,112	64,283
Research and development expenses	1,680	1,571	3,087	2,952
Restructuring and other related charges	486	-	1,147	-
Asbestos liability and defense costs (income)	1,482	(715)	3,127	(437)
Asbestos coverage litigation expenses	4,027	3,970	6,993	7,109
Operating income (loss)	8,294	(40,842)	20,104	(25,969)
Interest expense	1,786	3,236	3,632	7,733
Income (loss) before income taxes	6,508	(44,078)	16,472	(33,702)
Provision (benefit) for income taxes	2,142	(12,679)	5,245	(9,101)
Net income (loss)	\$ 4,366	\$ (31,399)	\$ 11,227	\$ (24,601)
Net income (loss) per share—basic and diluted	\$ 0.10	\$ (1.01)	\$ 0.26	\$ (0.99)

See accompanying notes to condensed consolidated financial statements.

COLFAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
Dollars in thousands

	July 3, 2009 (unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 38,047	\$ 28,762
Trade receivables, less allowance for doubtful accounts of \$3,220 and \$2,486	87,267	101,064
Inventories, net	81,561	80,327
Deferred income taxes, net	6,271	6,327
Asbestos insurance asset	26,178	26,473
Asbestos insurance receivable	35,351	36,371
Prepaid and other current assets	15,566	15,533
Total current assets	290,241	294,857
Deferred income taxes, net	53,320	53,428
Property, plant and equipment, net	91,649	92,090
Goodwill	166,165	165,530
Intangible assets, net	11,758	13,516
Long-term asbestos insurance asset	271,390	277,542
Deferred loan costs, pension and other assets	15,584	16,113
	\$ 900,107	\$ 913,076
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and notes payable	\$ 6,510	\$ 5,420
Accounts payable	37,283	52,138
Accrued asbestos liability	28,260	28,574
Accrued payroll	17,597	19,162
Accrued taxes	9,667	11,457
Other accrued liabilities	41,254	37,535
Total current liabilities	140,571	154,286
Long-term debt, less current portion	87,727	91,701
Long-term asbestos liability	320,271	328,684
Pension and accrued post-retirement benefits	128,438	130,188
Deferred income tax liability	7,309	7,685
Other liabilities	32,357	33,601
Total liabilities	716,673	746,145
Shareholders' equity:		
Common stock: \$0.001 par value; authorized 200,000,000; issued and outstanding 43,229,104 and 43,211,026	43	43
Additional paid-in capital	401,497	400,259
Retained deficit	(102,074)	(113,301)
Accumulated other comprehensive loss	(116,032)	(120,070)
Total shareholders' equity	183,434	166,931
	\$ 900,107	\$ 913,076

See accompanying notes to condensed consolidated financial statements.

COLFAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in thousands

(unaudited)

	Six Months Ended	
	July 3, 2009	June 27, 2008
Cash flows from operating activities:		
Net income (loss)	\$ 11,227	\$ (24,601)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	6,911	7,650
Noncash stock-based compensation	1,238	10,315
Write off of deferred loan costs	-	4,614
Amortization of deferred loan costs	338	607
(Gain) loss on sale of fixed assets	(12)	47
Deferred income taxes	(820)	(18,935)
Changes in operating assets and liabilities:		
Trade receivables	14,608	(8,314)
Inventories	(653)	(19,562)
Accounts payable and accrued liabilities, excluding asbestos-related accrued expenses	(19,903)	(4,915)
Other current assets	(849)	485
Change in asbestos liability and asbestos-related accrued expenses, net of asbestos insurance asset and receivable	4,721	(9,591)
Changes in other operating assets and liabilities	1,126	5,241
Net cash provided by (used in) operating activities	17,932	(56,959)
Cash flows from investing activities:		
Purchases of fixed assets	(5,886)	(9,053)
Proceeds from sale of fixed assets	72	23
Net cash used in investing activities	(5,814)	(9,030)
Cash flows from financing activities:		
Borrowings under term credit facility	-	100,000
Payments under term credit facility	(2,500)	(206,528)
Proceeds from borrowings on revolving credit facilities	-	28,185
Repayments of borrowings on revolving credit facilities	-	(28,158)
Payments on capital leases	(363)	(187)
Payments for deferred loan costs	-	(2,863)
Proceeds from the issuance of common stock, net of offering costs	-	193,020
Dividends paid to preferred shareholders	-	(38,546)
Net cash (used in) provided by financing activities	(2,863)	44,923
Effect of exchange rates on cash	30	106
Increase (decrease) in cash and cash equivalents	9,285	(20,960)
Cash and cash equivalents, beginning of period	28,762	48,093
Cash and cash equivalents, end of period	\$ 38,047	\$ 27,133

See accompanying notes to condensed consolidated financial statements.

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. Subsequent events were evaluated through August 4, 2009, the date these financial statements were issued.

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 and six months ended July 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. Further, general economic conditions as

well as backlog levels may impact future periods.

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3. Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which amends SFAS No. 107, Disclosures about Fair Values of Financial Instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. The FSP is effective for interim periods ending after June 15, 2009. The Company adopted FSP SFAS 107-1 and APB 28-1 and has provided the additional disclosures required. See Note 12.

In June 2009, the FASB issued SFAS No. 168, The “FASB Accounting Standards Codification™” and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (SFAS No. 168), which establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. SFAS No. 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission under federal securities laws as authoritative GAAP for SEC registrants. SFAS No. 168 will become effective in the third quarter of 2009 and will have no impact on the Company’s consolidated financial position or results of operations.

4. 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 six months ended July 3, 2009 and June 27, 2008 consisted of the following:

	Six Months Ended	
	July 3, 2009	June 27, 2008
Warranty liability at beginning of the period	\$ 3,108	\$ 2,971
Accrued warranty expense, net of adjustments	860	710
Cost of warranty service work performed	(370)	(519)
Foreign exchange translation effect	45	119
Warranty liability at end of the period	\$ 3,643	\$ 3,281

5. Income Taxes

For the three and six months ended July 3, 2009, the Company earned approximately \$6.5 million and \$16.5 million, respectively, before taxes and had \$2.1 million and \$5.2 million, respectively, of income tax expense. The effective tax rates of 32.9% and 31.8%, respectively, for the three and six months ended July 3, 2009 represent 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. These effective tax rates differ 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 28.0% to 26.3% that is applied to our Swedish operations, offset in part by a net increase to our valuation allowance and unrecognized tax benefit liability.

For the three and six months ended June 27, 2008, the Company had losses before income taxes of \$44.1 million and \$33.7 million, respectively and had income tax benefits of \$12.7 million and \$9.1 million, respectively. These effective tax rates of 28.8% and 27.0% were lower than the U.S. statutory rate primarily due to an \$11.8 million payment to reimburse certain selling shareholders for underwriting discounts that are not deductible for tax purposes, offset in part by an expected lower overall rate on normal operations due to reductions in the German corporate tax rates in 2008, other foreign tax rates that are lower than the U.S. tax rate, and changes in overall profitability.

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 tax years from 2003 to 2008 and in Germany tax years 2003 and 2006 to 2008 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. net operating loss tax attributes that have been carried forward to open tax years or are available to be carried forward to 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 \$1.1 million.

6. Restructuring and Other Related Charges

The Company has initiated a series of restructuring actions during 2009 in response to current and expected future economic conditions. As a result, the Company recorded pre-tax restructuring and related costs of \$0.5 million and \$1.1 million for three and six month periods ended July 3, 2009, respectively. As of July 3, 2009, we have reduced our company-wide workforce by approximately 150 associates from December 31, 2008. Additionally, 628 associates participate in a 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 expect to incur an additional \$0.3 million of social costs and taxes for employees participating in the furlough program during the second half of 2009. We have also closed a repair facility in Aberdeen, NC.

We recognize termination benefits as they are incurred over the remaining expected future service period. We record asset impairment charges to reduce the carrying amount of long-lived assets that will be sold or disposed of to their estimated fair values. A summary of restructuring activity for the six months ended July 3, 2009 is shown below.

	Six Months Ended July 3, 2009		Reserve Balance at July 3, 2009
	Provisions	Payments	
Restructuring Charges:			
Termination benefits	\$ 752	\$ (645)	\$ 107
Other charges	225	(225)	-
Total Restructuring	977	\$ (870)	\$ 107
Other Related Charges:			
Asset impairment charges	170		
Total Restructuring and Other Related Charges	\$ 1,147		

By the end of 2009, we expect to close an additional facility in Sanford, NC and move the production operations to the Company's facilities in Charlotte, NC and Columbia, Ky. Cash expenses associated with the facility closing are expected to be approximately \$2.3 million (\$1.4 million after tax or \$0.03 per share). The Company anticipates recognizing these charges in 2009. Of the total cash expenses, severance and other employee termination-related costs are expected to be approximately \$1.1 million and employee and equipment relocation costs are expected to be approximately \$1.2 million. The fair value of the facility and equipment are currently being evaluated which may result in the recognition of noncash asset impairment charges in the third quarter of 2009.

7. Earnings per Share

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

	Three Months Ended		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Numerator:				
Net income (loss)	\$ 4,366	\$ (31,399)	\$ 11,227	\$ (24,601)
Dividends on preferred stock	-	(3,492)	-	(3,492)
Income (loss) available to common shareholders	\$ 4,366	\$ (34,891)	\$ 11,227	\$ (28,093)
Denominator:				
Weighted-average shares of common stock outstanding – basic	43,221,555	34,525,984	43,216,233	28,311,879
Net income (loss) per share - basic	\$ 0.10	\$ (1.01)	\$ 0.26	\$ (0.99)
Weighted-average shares of common stock outstanding - basic	43,221,555	34,525,984	43,216,233	28,311,879
Net effect of potentially dilutive securities (1)	24,435	-	21,623	-
Weighted-average shares of common stock outstanding - diluted	43,245,990	34,525,984	43,237,856	28,311,879
Net income (loss) per share - diluted	\$ 0.10	\$ (1.01)	\$ 0.26	\$ (0.99)

(1) Potentially dilutive securities consist of options and restricted stock units.

In the three and six months ended July 3, 2009, respectively, approximately 1.5 million and 0.7 million 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. In the three and six months ended June 27, 2008, 0.6 million potentially dilutive stock options and restricted stock units were excluded from the calculation of diluted earnings per share, since their effect would have been anti-dilutive.

8. Comprehensive Income (Loss)

	Three Months Ended		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Net income (loss)	\$ 4,366	\$ (31,399)	\$ 11,227	\$ (24,601)
Other comprehensive income (loss):				
Foreign currency translation, net of tax	8,876	160	1,621	4,057
Unrecognized pension and post-retirement benefit plan costs, net of tax	616	431	1,216	862
Unrecognized gains (losses) on hedging activities, net of tax	311	(722)	1,201	(722)
Other comprehensive income (loss)	9,803	(131)	4,038	4,197
Comprehensive income (loss)	\$ 14,169	\$ (31,530)	\$ 15,265	\$ (20,404)

9. Inventories

Inventories consisted of the following:

	July 3, 2009	December 31, 2008
Raw materials	\$ 32,456	\$ 34,074
Work in process	36,114	33,691
Finished goods	23,937	21,600
	92,507	89,365
Less-Customer progress billings	(3,095)	(2,115)
Less-Allowance for excess, slow-moving and obsolete inventory	(7,851)	(6,923)
	\$ 81,561	\$ 80,327

10. 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		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Pension Benefits - U.S. Plans				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest cost	3,470	3,576	6,940	7,151
Expected return on plan assets	(4,566)	(4,774)	(9,132)	(9,549)
Amortization	702	585	1,404	1,170
Net periodic benefit credit	\$ (394)	\$ (613)	\$ (788)	\$ (1,228)
Pension Benefits - Non U.S. Plans				
Service cost	\$ 297	\$ 251	\$ 570	\$ 542
Interest cost	1,115	887	2,161	1,934
Expected return on plan assets	(313)	(224)	(539)	(478)
Amortization	176	106	350	226
Net periodic benefit cost	\$ 1,275	\$ 1,020	\$ 2,542	\$ 2,224
Other Post-Retirement Benefits				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest cost	131	108	262	215
Amortization	88	37	176	75
Net periodic benefit cost	\$ 219	\$ 145	\$ 438	\$ 290

11. Share-Based Payments

During the first quarter of 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 no longer believes it is probable that the performance criterion will be achieved and accordingly, no compensation expense for these units has been recognized in the six months ended July 3, 2009.

In the three months ended July 3, 2009, there were 51,723 director restricted stock units granted at a fair value of \$8.12 per unit on the date of grant. Unrecognized compensation cost of \$0.4 million for these units is expected to be recognized over a period of 2.9 years.

12. Financial Instruments

The carrying values of financial instruments, including accounts receivable, accounts payable and other accrued liabilities, approximate their fair values due to their short-term maturities. The fair value of long-term debt is estimated to approximate the carrying amount based on current interest rates for similar types of borrowings. The estimated fair values may not represent actual values of the financial instruments that could be realized as of the balance sheet date or that will be realized in the future.

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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 (loss) (AOCI), 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.

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 \$3.7 million at July 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. During the three and six months ended July 3, 2009, \$0.7 million and \$1.4 million of losses on the swap were reclassified from AOCI to interest expense. At July 3, 2009, the Company expects to reclassify \$2.7 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 \$1.7 million at July 3, 2009 and \$3.6 million at December 31, 2008. The fair values of the contracts were liabilities of \$0.4 million at July 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 and six months ended July 3, 2009, respectively, the consolidated statements of operations include \$0.7 million and \$1.6 million of unrealized gains as a result of changes in the fair value of these commodity contracts. For the three and six months ended June 28, 2008, respectively, the consolidated statements of operations include \$0.2 million of unrealized losses and \$0.4 million of unrealized gains as a result of changes in the fair value of these commodity contracts. Realized losses on these commodity contracts of \$0.3 million and \$0.7 million were recognized in the three and six months ended July 3, 2009, respectively, and less than \$0.1 million of realized gains were recognized in the both the three and six months ended June 27, 2008.

The Company had foreign currency contracts with notional values of \$11.0 million at July 3, 2009 and \$16.5 million at December 31, 2008. The fair values of the contracts were assets of \$0.1 million at July 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 and six months ended July 3, 2009, respectively, the consolidated statements of operations include \$0.1 million of unrealized gains and \$0.9 million of unrealized losses as a result of changes in the fair value of these contracts. The consolidated statements of operations include less than \$0.1 million of unrealized losses for both the three and six months ended June 27, 2008, respectively, as a result of changes in the fair value of these contracts. Realized gains on these contracts of \$0.2 million and \$0.4 million were recognized in the three and six months ended July 3, 2009, respectively, and less than \$0.1 million of realized losses were recognized in both the three and six months ended June 27, 2008.

13. 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. Of the 29,279 pending claims, approximately 7,500 of such claims have been brought in various federal and state courts in Mississippi; approximately 3,000 of such claims have been brought in the Supreme Court of New York County, New York; approximately 200 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.

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.

Claims activity related to asbestos is as follows(1):

	Six Months Ended	
	July 3, 2009	June 27, 2008
Claims unresolved at the beginning of the period	35,357	37,554
Claims filed(2)	1,776	2,390
Claims resolved(3)	(7,854)	(3,324)
Claims unresolved at the end of the period	29,279	36,620

(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.

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 Company has established reserves of \$348.5 million and \$357.3 million as of July 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 \$297.6 million and \$304.0 million as of July 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 \$51.0 million and \$53.3 million as of July 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 \$35.4 million and \$36.4 million as of July 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.

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The expense related to these liabilities and legal defense was \$1.5 million and \$3.1 million, net of estimated insurance recoveries, for the three and six months ended July 3, 2009, respectively, compared to income of \$0.7 million and \$0.4 million for the three and six months ended June 27, 2008, respectively. Legal costs related to the subsidiaries' action against their asbestos insurers was \$4.0 million and \$7.0 million for the three and six months ended July 3, 2009, respectively, compared to \$4.0 million and \$7.1 million for the three and six months ended June 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.

Guarantees

At July 3, 2009, there were \$14.2 million of letters of credit outstanding. Additionally, at July 3, 2009, we had issued \$9.4 million of bank guarantees securing primarily customer prepayments, performance, and product warranties in our European and Asian 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. A final settlement agreement was signed on July 17, 2009 which will supersede and replace the Stipulation and Agreement of Settlement and Dismissal of Claims entered into by the parties on November 30, 1998. The parties will seek preliminary approval from the court of the settlement agreement and thereafter proceed to a fairness hearing. At July 3, 2009, the Company's consolidated

balance sheet includes an accumulated post retirement benefit obligation of \$2.4 million for this matter.

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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.

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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 I "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. These statements are 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 economic downturn as well as the cyclical nature of our markets;
- our ability to accurately estimate the cost of or realize savings from restructuring programs;
- 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;

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- the solvency of our insurers and the likelihood of payment for asbestos-related claims;
- 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 this Form 10-Q as well as 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.

Outlook

The economic downturn had a significant impact our sales and cash flow in the second quarter of 2009. In addition, our order rates are down significantly and if current economic conditions continue, our business results will continue to be negatively affected. We will continue to monitor global economic conditions and presently expect the following

market conditions in 2009:

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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, although 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 half 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 across the board and has declined significantly in several portions of this market, including chemical, building products, diesel engine, waste water, machinery support and distribution, primarily in Europe and North America.

Based on declining orders and our culture of continuous improvement, we initiated a series of restructuring actions during 2009 to better position the Company's cost structure for future periods. As a result, the Company recorded pre-tax restructuring and other related costs of \$0.5 million and \$1.1 million for three and six month periods ended July 3, 2009, respectively. As of July 3, 2009, we have reduced our company-wide workforce by approximately 150 associates from December 31, 2008. Additionally, 628 associates participate in a 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 closed a repair facility in Aberdeen, NC and by the end of 2009, expect to close an additional facility in Sanford, NC and move the production operations to two of our other facilities. 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, to the extent they impact the periods presented, 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, net of cancellations. 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 six months ended July 3, 2009 include the impact of two additional business days as compared to the six months ended June 27, 2008. The second quarter of 2009 had two fewer business days as compared to 2008. The fourth quarter of 2009 will have four fewer business days than the fourth quarter of 2008. The comparability of our operating results for the three and six months ended July 3, 2009 and June 27, 2008 is affected by the following significant items:

Foreign Currency Fluctuations

A significant portion of our sales, approximately 64% and 67%, respectively, for the three and six months ended July 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.

Restructuring and Other Related Charges

Our results for the three and six months ended July 3, 2009 include \$0.5 million and \$1.1 million, respectively, of restructuring and other related charges incurred to better position the Company's cost structure for future periods.

IPO-related Costs

Results for the three and six months ended June 27, 2008 include \$57.0 million of nonrecurring costs associated with our initial public offering in May 2008.

Legacy Legal Adjustment

Selling, general and administrative expenses for the three and six months ended June 27, 2008 include a \$4.1 million charge to legacy legal reserves related to a non-asbestos legal matter that was settled in the third quarter of 2008.

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").

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

(Amounts in millions)	Three Months Ended		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Asbestos liability and defense costs (income)	\$ 1.5	\$ (0.7)	\$ 3.1	\$ (0.4)
Asbestos coverage litigation expenses	4.0	4.0	7.0	7.1
Asbestos-related expense	\$ 5.5	\$ 3.3	\$ 10.1	\$ 6.7

Asbestos liability and defense costs were \$1.5 million and \$3.1 million for the three and six months ended July 3, 2009, respectively, compared to income of \$0.7 million and \$0.4 million for the three and six months ended June 27, 2008, respectively. The increase in asbestos liability and defense costs for the three and six months ended July 3, 2009 relates primarily to two items: (i) the receipt of \$0.9 million in the first quarter of 2008 from an insurer previously considered insolvent, which resulted in a gain in that period and (ii) an increase to the insurance receivable in the second quarter of 2008 based upon an acknowledgement by an insurer of additional solvent coverage.

Legal costs related to the subsidiaries' action against their asbestos insurers were \$4.0 million and \$7.0 million for the three and six months ended July 3, 2009, respectively, compared to \$4.0 million and \$7.1 million for the three and six months ended June 27, 2008, respectively. See Note 13 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.

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	
	\$	%	\$	%
Three Months Ended June 27, 2008	\$ 161.4		\$ 188.8	
Components of Growth:				
Existing Businesses	(16.4)	(10.2)%	(72.3)	(38.3)%
Foreign Currency Translation	(15.8)	(9.8)%	(12.4)	(6.6)%
Total Growth	(32.2)	(20.0)%	(84.7)	(44.9)%
Three Months Ended July 3, 2009	\$ 129.2		\$ 104.1	

(Amounts in millions)	Sales		Orders		Backlog at Period End	
	\$	%	\$	%		
Six Months Ended June 27, 2008	\$ 292.1		\$ 369.1		\$ 384.0	
Components of Growth:						
Existing Businesses	7.0	2.4%	(118.2)	(32.0)%	(63.8)	(16.6)%
Foreign Currency Translation	(33.6)	(11.5)%	(26.0)	(7.0)%	(27.9)	(7.3)%
Total Growth	(26.6)	(9.1)%	(144.2)	(39.1)%	(91.7)	(23.9)%
Six Months Ended July 3, 2009	\$ 265.5		\$ 224.9		\$ 292.3	

(Amounts in millions)	Three Months Ended		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Net Sales by Product:				
Pumps, including aftermarket parts and service	\$ 108.2	\$ 139.7	\$ 229.6	\$ 255.9
Systems, including installation service	18.8	18.3	31.3	29.0
Valves	1.8	2.2	3.4	3.9
Other	0.4	1.2	1.2	3.3
Total net sales	\$ 129.2	\$ 161.4	\$ 265.5	\$ 292.1

As detailed above, for the three months ended July 3, 2009, sales from existing businesses were down 10.2%, primarily due to a significant decline in sales volume in the general industrial and power generation end markets, as well as customer requested project delays. The decline in the general industrial market results from the global economic downturn, while the power generation market decline is primarily the result of project timing. For the six month period, sales from existing businesses increased 2.4%, as increased sales volume in the commercial marine, global navy and oil and gas end markets were substantially offset by declines in the general industrial and power generation end markets, as well as customer requested project delays. The decline in the general industrial market

results from the global economic downturn, while the power generation decline is primarily the result of project timing. Foreign currency translation negatively impacted sales and orders for both the three and six month periods ending July 3, 2009, primarily due to the strengthening of the U.S. dollar against the Euro.

Orders, net of cancellations, from existing businesses for the three and six months ended July 3, 2009 declined 38.3% and 32.0%, respectively, over the comparable period in the prior year. In both periods, the declines in orders from existing businesses were primarily attributable to a significant decline in demand in the commercial marine and general industrial end markets. We experienced commercial marine project cancellations of approximately \$9 million and \$15 million for the three and six months ended July 3, 2009, respectively, as a result of the economic downturn. Backlog as of July 3, 2009 of \$292.3 million decreased \$63.8 million, or 16.6%, excluding the impact of foreign currency translation, as compared to \$384.0 million at June 27, 2008. Since April 3, 2009, backlog decreased \$26.6 million, or 8.7%, excluding the impact of foreign currency translation which had a positive impact of \$13.2 million.

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Gross Profit

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

(Amounts in millions)	Three Months Ended		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Gross Profit	\$ 44.6	\$ 56.8	\$ 92.6	\$ 105.0
Gross Profit Margin	34.5%	35.2%	34.9%	35.9%

Gross profit decreased \$12.2 million to \$44.6 million for the three months ended July 3, 2009. Gross profit from existing businesses decreased \$6.7 million, with an additional \$5.5 million negative impact of foreign exchange rates. Gross profit margin decreased 70 basis points to 34.5% for the three months ended July 3, 2009 from 35.2% for the three months ended June 27, 2008. The margin decline was primarily driven by decreased production resulting in lower absorption of fixed manufacturing costs. Our aggressive cost reduction efforts helped to minimize the impact of lower revenues in the quarter.

Gross profit for the six months ended July 3, 2009 decreased \$12.4 million to \$92.6 million, primarily due to a \$12.1 million negative impact of foreign exchange rates. The margin decline was primarily driven by decreased production resulting in lower absorption of fixed manufacturing costs 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		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
SG&A Expenses	\$ 28.6	\$ 35.8	\$ 58.1	\$ 64.3
SG&A Expenses as a percentage of sales	22.1%	22.2%	21.9%	22.0%

Selling, general and administrative expenses decreased \$7.2 million to \$28.6 million for the three months ended July 3, 2009 compared to \$35.8 million for the three months ended June 27, 2008. The impact of foreign exchange rates reduced SG&A expenses by \$3.1 million. Excluding this impact, selling, general and administrative expenses for the three months ended July 3, 2009 were \$4.1 million lower than the prior year period, primarily due to lower charges for legacy legal matters. In addition, unrealized income on raw material futures and foreign currency contracts for which we did not elect hedge accounting was \$1.1 million higher than the prior year quarter. Higher costs associated with becoming a public company of \$0.8 million, including \$0.4 million of additional stock compensation expense, were partially offset by lower commission expense of \$0.6 million.

Selling, general and administrative expenses decreased \$6.2 million to \$58.1 million for the six months ended July 3, 2009 compared to \$64.3 million for the six months ended June 27, 2008, due primarily to the impact of foreign exchange rates. An additional \$2.4 million of professional fees and other costs associated with becoming a public company, including \$1.0 million of higher stock compensation costs, and increased selling expenses of \$1.2 million were offset by lower charges for legacy legal matters.

Operating Income

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

(Amounts in millions)	Three Months Ended		Six Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Operating income (loss)	\$ 8.3	\$ (40.8)	\$ 20.1	\$ (26.0)
Operating margin	6.4%	(25.3)%	7.6%	(8.9)%

Operating income for the three months ended July 3, 2009 increased \$49.1 million to \$8.3 million from a loss of \$40.8 million for the three months ended June 27, 2008. This increase was primarily due to the absence of \$57.0 million of initial public offering-related costs incurred in the second quarter of 2008. The impact of foreign exchange rates reduced operating income by \$2.3 million. Excluding these impacts, operating income was \$5.6 million lower than the prior year quarter, with lower gross profit from existing businesses and higher legacy asbestos expenses partially offset by lower SG&A expenses.

Operating income for the six months ended July 3, 2009 increased \$46.1 million to \$20.1 million from a loss of \$26.0 million for the six months ended June 27, 2008. This increase was primarily due to the absence of \$57.0 million of initial public offering-related costs incurred in the second quarter of 2008. The impact of foreign exchange rates reduced operating income by \$5.6 million. Excluding these impacts, operating income was \$5.4 million lower than the six months ended June 27, 2008, primarily due to higher legacy asbestos expenses and restructuring charges incurred in the current-year period.

Interest Expense

For a description of our outstanding indebtedness, please refer to “—Liquidity and Capital Resources” below.

Interest expense for the three months ended July 3, 2009 decreased \$1.5 million to \$1.8 million from \$3.2 million for the three months ended June 27, 2008. The decrease was due to lower debt levels during the second quarter of 2009 compared to the same period in 2008 as a result of debt repayments of \$105.4 million from a portion of the IPO proceeds in the second quarter of 2008. An increase in the weighted-average interest rate on our variable rate borrowings from 5.3% for the three months ended June 27, 2008 to 5.6% for the three months ended July 3, 2009 contributed \$0.1 million of additional interest expense.

Interest expense for the six months ended July 3, 2009 decreased \$4.1 million to \$3.6 million from \$7.7 million for the six months ended June 27, 2008. The decrease was primarily due to lower debt levels during 2009 compared to 2008 as a result of debt repayments of \$105.4 million from 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 6.3% for the six months ended June 27, 2008 to 5.6% for the six months ended July 3, 2009 contributed approximately \$0.4 million to the decrease in interest expense.

Provision for Income Taxes

The effective income tax rates for the three and six months ended July 3, 2009 were 32.9% and 31.8%, respectively. Our effective tax rates for the three and six months ended July 3, 2009 were 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 in 2009 of the Swedish tax rate from 28% to 26.3% that is applied to our Swedish operations, offset in part by a net

increase to our valuation allowance and unrecognized tax benefit liability.

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The effective income tax rates for the three and six months ended June 27, 2008 were 28.8% and 27.0%, respectively. Our effective tax rates for the three and six months ended June 27, 2008 were lower than the U.S. federal statutory rate primarily due to a \$11.8 million payment to reimburse certain selling shareholders for underwriters discounts that are not deductible for tax purposes, offset in part by an expected lower overall rate on normal operations due to reductions in the German corporate tax rates in 2008, other foreign tax rates that are lower than the U.S. tax rate and changes in overall profitability.

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.

Borrowings

During the six months ended July 3, 2009, we made principal payments of \$2.5 million on our Term A Note, leaving \$93.8 million outstanding at the end of the period. At July 3, 2009, the interest rate on the Term A Note was 2.56% inclusive of 2.25% margin and the annual commitment fee on our \$150.0 million revolver was 0.4%. At July 3, 2009, there was \$14.2 million outstanding on the letter of credit sub-facility, leaving approximately \$136 million available under the revolver loan. Of the total \$136 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 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 July 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)	Six Months Ended	
	July 3, 2009	June 27, 2008
Net cash provided by (used in) operating activities	\$ 17.9	\$ (57.0)
Purchases of fixed assets	(5.9)	(9.1)
Other sources, net	0.1	0.1
Net cash used in investing activities	\$ (5.8)	\$ (9.0)
Proceeds and repayments of borrowings, net	(2.5)	(106.5)
Net proceeds from IPO	-	193.0
Dividends paid to preferred shareholders	-	(38.5)
Payments made for loan costs	-	(2.9)
Other uses, net	(0.4)	(0.2)
Net cash (used in) provided by financing activities	\$ (2.9)	\$ 44.9

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 six months ended July 3, 2009 and June 27, 2008 net cash paid for asbestos liabilities, net of insurance settlements received, was \$5.4 million and \$16.3 million, respectively.

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 six months ended July 3, 2009 and June 27, 2008, cash contributions for defined benefit plans were \$2.0 million and \$2.6 million, respectively.

Net cash used in operating activities for the six months ended June 27, 2008 includes cash paid for nonrecurring IPO-related costs of \$42.4 million (\$30.6 million of special bonuses and related fringe costs paid under previously adopted executive compensation plans and \$11.8 million to reimburse the selling stockholders for the underwriting discount on the shares sold by them in the IPO).

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 \$0.8 million from December 31, 2008 to July 3, 2009. A \$14.6 million reduction in trade receivables was more than offset by a \$14.8 million decrease in accounts payable and a \$0.7 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 six months ended July 3, 2009 and June 27, 2008, net working capital as a percentage of annualized sales was 25.0% and 23.3%, 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 six months ended July 3, 2009, we repaid \$2.5 million of long-term borrowings.

Net IPO proceeds of \$193.0 million were received in the first six months of 2008. We used these proceeds to: (i) repay approximately \$105.4 million of indebtedness outstanding under our credit facility existing at that time, (ii) pay dividends to existing preferred stockholders of record immediately prior to the consummation of the IPO in the amount of \$38.5 million, (iii) pay \$11.8 million to the selling stockholders in the IPO as reimbursement for the underwriting discount incurred on the shares sold by them, and (iv) pay special bonuses of approximately \$27.8 million to certain of our executives under previously adopted executive compensation plans. The remainder of the proceeds was applied to working capital.

We paid approximately \$2.9 million in deferred loan costs related to our new credit facility entered into in May 2008.

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 six months ended July 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.

Recent Accounting Pronouncements

See Note 3 to our Condensed Consolidated Financial Statements for a discussion of recently issued and adopted accounting pronouncements.

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 six months ended July 3, 2009 is discussed below.

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 July 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 six months ended July 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 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 \$3.7 million at July 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 and six months ended July 3, 2009, approximately 64.1% and 67.4%, respectively, of our sales were derived from operations outside the U.S., with approximately 60.9% and 64.2%, respectively, 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 increase or decrease, 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 and six months ended July 3, 2009, would have increased by \$1.0 million and \$2.5 million, respectively.

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 July 3, 2009, we had copper and nickel futures contracts with notional values of \$1.7 million that were in an unrealized loss position of \$0.4 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 Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's 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

Discussion of legal matters is incorporated by reference to Part I, Item 1, Note 13, "Commitments and Contingencies," in the Notes to the Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. The following risk factor is provided to supplement and update the Risk Factors previously disclosed 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.

Changes in the general economy, including the current global financial crisis and economic downturn, and the cyclical nature of our markets could harm our operations and financial performance.

Our financial performance depends, in large part, on conditions in the markets we serve and on the general condition of the global economy. Any sustained weakness in demand, downturn or uncertainty in the global economy could reduce our sales and profitability, and result in restructuring efforts. Restructuring efforts are inherently risky and we may not be able to predict the cost and timing of such actions accurately or properly estimate the impact on demand, if any. We also may not be able to realize the anticipated savings we expected from restructuring activities. The current global economic downturn may materially affect demand for our products and we may not be able to predict the effect on our results. In addition, our products are sold in many industries, some of which are cyclical and may experience periodic downturns. Cyclical weakness in the industries we serve could lead to reduced demand for our products and

affect our profitability and financial performance.

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We believe that many of our customers and suppliers are reliant on liquidity from global credit markets and in some cases, require external financing to purchase products or finance operations. If the current conditions impacting the credit markets and general economy are prolonged, demand for our products may be negatively affected and orders may be canceled, which could materially impact our financial position, results of operations and cash flow. Further, lack of liquidity by our customers could impact our ability to collect amounts owed to us and lack of liquidity by financial institutions could impact our ability to fully access our existing credit facility.

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

A summary of matters voted upon at our Annual Stockholders Meeting that was held on May 12, 2009 are listed below:

Election of Directors

Directors were elected to the Board of Directors until next year's annual meeting and until their successors are duly elected and qualified.

	Votes For	Votes Against	Votes Abstained
Nominee			
Patrick W. Allender	42,116,686	115,070	87,624
C. Scott Brannan	42,122,224	109,432	87,724
Joseph O. Bunting III	42,163,473	68,283	87,624
Thomas S. Gayner	42,118,045	113,612	87,724
Rhonda L. Jordan	42,111,015	118,741	89,624
Clay Kiefaber	42,111,071	120,686	87,624
Mitchell P. Rales	42,150,112	85,555	83,714
Rajiv Vinnakota	42,102,247	127,429	89,705
John A. Young	42,177,278	58,388	83,714

Appointment of Independent Auditors

The appointment of Ernst & Young LLP as our independent auditors for 2009 was ratified by our stockholders as follows:

Votes For	Votes
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