

Colfax CORP  
Form 10-Q  
April 30, 2010

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

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FORM 10-Q

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

For the Quarter ended April 2, 2010

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)

23235  
(Zip Code)

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

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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

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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 2, 2010, there were 43,247,057 shares of the registrant's common stock, par value \$.001 per share, outstanding.

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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 |                  |
|---|--------------------|------------------|
|   | April 2,<br>2010   | April 3,<br>2009 |
| Net sales                                     | \$ 119,971         | \$ 136,323       |
| Cost of sales                                 | 78,215             | 88,308           |
| Gross profit                                  | 41,756             | 48,015           |
| Selling, general and administrative expenses  | 29,880             | 29,526           |
| Research and development expenses             | 1,628              | 1,407            |
| Restructuring and other related charges       | 4,039              | 661              |
| Asbestos liability and defense costs          | 1,435              | 1,645            |
| Asbestos coverage litigation expenses         | 3,881              | 2,966            |
| Operating income                              | 893                | 11,810           |
| Interest expense                              | 1,813              | 1,846            |
| (Loss) income before income taxes             | (920)              | 9,964            |
| (Benefit) provision for income taxes          | (267)              | 3,103            |
| Net (loss) income                             | \$ (653)           | \$ 6,861         |
| Net (loss) income per share—basic and diluted | \$ (0.02)          | \$ 0.16          |

See accompanying notes to condensed consolidated financial statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
Dollars in thousands

|   | April 2,<br>2010<br>(unaudited) | December 31,<br>2009 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| <b>CURRENT ASSETS:</b>  |                                 |                      |
| Cash and cash equivalents   | \$ 60,215                       | \$ 49,963            |
| Trade receivables, less allowance for doubtful accounts of \$2,732 and \$2,837                            | 80,038                          | 88,493               |
| Inventories, net  | 65,381                          | 71,150               |
| Deferred income taxes, net  | 6,513                           | 6,823                |
| Asbestos insurance asset  | 32,207                          | 31,502               |
| Asbestos insurance receivable   | 24,208                          | 28,991               |
| Prepaid expenses  | 13,613                          | 11,109               |
| Other current assets  | 2,479                           | 2,426                |
| <b>Total current assets</b>   | <b>284,654</b>                  | <b>290,457</b>       |
| Deferred income taxes, net  | 54,213                          | 52,023               |
| Property, plant and equipment, net  | 88,097                          | 92,090               |
| Goodwill  | 163,706                         | 167,254              |
| Intangible assets, net  | 11,289                          | 11,952               |
| Long-term asbestos insurance asset  | 356,208                         | 357,947              |
| Long-term asbestos insurance receivable   | 16,610                          | 16,876               |
| Deferred loan costs, pension and other assets   | 14,487                          | 14,532               |
| <b>Total assets</b>   | <b>\$ 989,264</b>               | <b>\$ 1,003,131</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                                 |                      |
| <b>CURRENT LIABILITIES:</b>   |                                 |                      |
| Current portion of long-term debt and notes payable   | \$ 10,151                       | \$ 8,969             |
| Accounts payable  | 36,771                          | 36,579               |
| Accrued asbestos liability  | 35,618                          | 34,866               |
| Accrued payroll   | 20,125                          | 17,756               |
| Accrued taxes   | 2,510                           | 2,154                |
| Accrued termination benefits  | 4,792                           | 9,473                |
| Other accrued liabilities   | 36,931                          | 34,402               |
| <b>Total current liabilities</b>  | <b>146,898</b>                  | <b>144,199</b>       |
| Long-term debt, less current portion  | 80,000                          | 82,516               |
| Long-term asbestos liability  | 407,211                         | 408,903              |
| Pension and accrued post-retirement benefits  | 121,060                         | 126,953              |
| Deferred income tax liability   | 9,717                           | 10,375               |
| Other liabilities   | 31,151                          | 31,353               |
| <b>Total liabilities</b>  | <b>796,037</b>                  | <b>804,299</b>       |
| <b>Shareholders' equity:</b>  |                                 |                      |
| Common stock: \$0.001 par value; authorized 200,000,000; issued and outstanding 43,247,057 and 43,229,104 | 43                              | 43                   |
| Additional paid-in capital  | 403,816                         | 402,852              |
| Retained deficit  | (92,232)                        | (91,579)             |
| Accumulated other comprehensive loss  | (118,400)                       | (112,484)            |

|  |            |              |
|--|------------|--------------|
| Total shareholders' equity                 | 193,227    | 198,832      |
| Total liabilities and shareholders' equity | \$ 989,264 | \$ 1,003,131 |

See accompanying notes to condensed consolidated financial statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
Dollars in thousands  
(unaudited)

|  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | April 2,<br>2010   | April 3,<br>2009 |
| <b>Cash flows from operating activities:</b>   |                    |                  |
| Net (loss) income  | \$ (653)           | \$ 6,861         |
| <b>Adjustments to reconcile net income (loss) to cash provided by operating activities:</b>                        |                    |                  |
| Depreciation, amortization and fixed asset impairment charges  | 3,735              | 3,543            |
| Noncash stock-based compensation   | 1,067              | 559              |
| Amortization of deferred loan costs  | 169                | 168              |
| Deferred income taxes  | (2,574)            | (1,678)          |
| <b>Changes in operating assets and liabilities, net of acquisitions:</b>   |                    |                  |
| Trade receivables  | 5,946              | 10,293           |
| Inventories  | 3,686              | (3,416)          |
| Accounts payable and accrued liabilities, excluding asbestos related accrued expenses                              | (2,442)            | (13,306)         |
| Other current assets   | (2,396)            | 1,885            |
| Change in asbestos liability and asbestos-related accrued expenses, net of asbestos insurance asset and receivable | 10,994             | 3,464            |
| Changes in other operating assets and liabilities  | (1,443)            | 2,295            |
| <b>Net cash provided by operating activities</b>   | <b>16,089</b>      | <b>10,668</b>    |
| <b>Cash flows from investing activities:</b>   |                    |                  |
| Purchases of fixed assets  | (2,509)            | (3,137)          |
| Proceeds from sale of fixed assets   | 23                 | 51               |
| <b>Net cash used in investing activities</b>   | <b>(2,486)</b>     | <b>(3,086)</b>   |
| <b>Cash flows from financing activities:</b>   |                    |                  |
| Payments under term credit facility  | (1,250)            | (1,250)          |
| Payments on capital leases   | (56)               | (264)            |
| Proceeds from issuance of common stock   | 26                 | -                |
| <b>Net cash used in financing activities</b>   | <b>(1,280)</b>     | <b>(1,514)</b>   |
| <b>Effect of exchange rates on cash</b>  | <b>(2,071)</b>     | <b>(459)</b>     |
| <b>Increase in cash and cash equivalents</b>   | <b>10,252</b>      | <b>5,609</b>     |
| Cash and cash equivalents, beginning of period   | 49,963             | 28,762           |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$ 60,215</b>   | <b>\$ 34,371</b> |

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, 2009 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, 2009 filed with the SEC on February 25, 2010.

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 2, 2010 are not necessarily indicative of the results of operations that may be achieved for the full year. Quarterly results are 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. General economic conditions as well as backlog levels may,

however, impact future seasonal variations.

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### 3. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2009-13, Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force. ASU No. 2009-13 addresses the unit of accounting for arrangements involving multiple deliverables and how arrangement consideration should be allocated to the separate units of accounting. The Company will be required to adopt the provisions of ASU No. 2009-13 prospectively beginning January 1, 2011. Earlier retrospective application is permitted. The Company is evaluating the effects of implementing the provisions of this new guidance.

### 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 three months ended April 2, 2010 and April 3, 2009 consisted of the following:

|   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | April 2,<br>2010   | April 3,<br>2009 |
| Warranty liability at beginning of the period           | \$ 2,852           | \$ 3,108         |
| Accrued warranty expense, net of adjustments            | 239                | 283              |
| Changes in estimates related to pre-existing warranties | (144)              | (159)            |
| Cost of warranty service work performed                 | (207)              | (115)            |
| Foreign exchange translation effect                     | (105)              | (161)            |
| Warranty liability at end of the period                 | \$ 2,635           | \$ 2,956         |

### 5. Income Taxes

For the three months ended April 2, 2010, the Company had a loss of approximately \$0.9 million before taxes and had \$0.3 million of income tax benefit. The effective tax rate of 29.0% 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 29.0% differs from the U.S. federal statutory tax rate primarily due to international tax rates which are lower than the U.S. tax rate.

For the three months ended April 3, 2009, the Company earned \$10.0 million before taxes and had \$3.1 million of income tax expense. The effective tax rate of 31.1% differed from the U.S. 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.

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 2004 to 2009 and in Germany, tax years 2003 and 2006 to 2009 remain subject to examination. In the U.S., tax years 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 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 ranging from zero to \$1.2 million.

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## 6. Restructuring and Other Related Charges

The Company initiated a series of restructuring actions during 2009 in response to then current and expected future economic conditions. As a result, the Company recorded pre-tax restructuring and related costs of \$4.0 million during the three months ended April 2, 2010 and \$0.7 million during the three months ended April 3, 2009. The costs incurred in the first quarter of 2010 include \$2.2 million of termination benefits, including \$0.6 million of non-cash stock-based compensation expense, related to the departure of the Company's former President and Chief Executive Officer (CEO) in January 2010. The costs incurred in the first quarter of 2009 included \$0.5 million of termination benefits and a \$0.2 million non-cash asset impairment charge related to closure of a repair facility.

As of April 2, 2010, we have reduced our company-wide workforce by 337 associates from December 31, 2008. Additionally, we are participating in a German government-sponsored furlough program in which the government pays the wage-related costs for participating associates. Payroll taxes and other employee benefits related to employees' furlough time are included in restructuring costs. Our agreement with the German works council allowing participation in the furlough program ends February 2011. We expect to incur approximately \$4.0 million of additional termination benefits and furlough charges in the remainder of 2010 for actions implemented through the date these financial statements are filed.

We recognize the cost of involuntary termination benefits at the communication date or ratably over any remaining expected future service period. Voluntary termination benefits are recognized as a liability and a loss when employees accept the offer and the amount can be reasonably estimated. 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. Fair values are estimated using observable inputs including third party appraisals and quoted market prices.

A summary of restructuring activity for the three months ended April 2, 2010 is shown below.

|   | Three Months Ended April 2, 2010              |            |            |                              |   |
|---|---|------------|------------|------------------------------|---|
|   | Accrued Termination Benefits at Dec. 31, 2009 | Provisions | Payments   | Foreign Currency Translation | Accrued Termination Benefits at April 2, 2010 |
| <b>Restructuring and Other Related Charges:</b> |   |            |            |                              |   |
| Termination benefits (1)                        | \$ 9,473                                      | \$ 2,710   | \$ (6,969) | \$ (422)                     | \$ 4,792                                      |
| Furlough charges (2)                            | -   | 220        | (220)      | -                            | -   |
| Facility closure charges (3)                    | -   | 535        | (535)      | -                            | -   |
|   | \$ 9,473                                      | 3,465      | \$ (7,724) | \$ (422)                     | \$ 4,792                                      |
| Non-cash termination benefits (4)               |   | 574        |            |                              |   |
| <b>Total</b>                                    |   | \$ 4,039   |            |                              |   |

(1) Includes severance and other termination benefits such as outplacement services.

(2) Includes payroll taxes and other employee benefits related to German employees' furlough time.

(3) Includes the cost of relocating and training associates and relocating equipment in connection with the closing of the Sanford, NC facility.

(4) Includes stock-based compensation expense related to the accelerated vesting of certain share-based payments in connection with the departure of the Company's former President and CEO in January 2010.

## 7. Earnings per Share

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

|   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | April 2,<br>2010   | April 3,<br>2009 |
| <b>Numerator:</b>   |                    |                  |
| Net (loss) income available to common shareholders            | \$ (653)           | \$ 6,861         |
| <b>Denominator:</b>   |                    |                  |
| Weighted-average shares of common stock outstanding - basic   | 43,242,659         | 43,211,026       |
| Net (loss) income per share - basic                           | \$ (0.02)          | \$ 0.16          |
| Weighted-average shares of common stock outstanding - basic   | 43,242,659         | 43,211,026       |
| Net effect of potentially dilutive securities (1)             | -                  | 101,280          |
| Weighted-average shares of common stock outstanding - diluted | 43,242,659         | 43,312,306       |
| Net (loss) income per share - diluted                         | \$ (0.02)          | \$ 0.16          |

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

Due to our net loss for the three months ended April 2, 2010, 1.6 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 months ended April 3, 2009, 0.7 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 |                  |
|--|--------------------|------------------|
|  | April 2,<br>2010   | April 3,<br>2009 |
| Net (loss) income  | \$ (653)           | \$ 6,861         |
| Other comprehensive (loss) income:                             |                    |                  |
| Foreign currency translation, net of tax                       | (6,970)            | (7,255)          |
| Unrealized (losses) gains on hedging activities, net of tax    | (463)              | 199              |
| Amounts reclassified to net income:                            |                    |                  |
| Losses on hedging activities, net of tax                       | 733                | 691              |
| Net pension and other postretirement benefit costs, net of tax | 784                | 600              |
| Other comprehensive (loss) income                              | (5,916)            | (5,765)          |
| Comprehensive (loss) income                                    | \$ (6,569)         | \$ 1,096         |

## 9. Inventories

Inventories consisted of the following:

|   | April 2,<br>2010 | December 31,<br>2009 |
|---|------------------|----------------------|
| Raw materials   | \$ 25,427        | \$ 28,445            |
| Work in process   | 31,386           | 32,888               |
| Finished goods  | 22,050           | 21,013               |
|   | 78,863           | 82,346               |
| Less-Customer progress billings                               | (4,724)          | (3,171)              |
| Less-Allowance for excess, slow-moving and obsolete inventory | (8,758)          | (8,025)              |
|   | \$ 65,381        | \$ 71,150            |

## 10. Net Periodic Benefit Cost – Defined Benefit Plans

The following table 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 2,<br>2010   | April 3,<br>2009 |
| <b>Pension Benefits - U.S. Plans</b>     |                    |                  |
| Service cost                             | \$ -               | \$ -             |
| Interest cost                            | 3,369              | 3,470            |
| Expected return on plan assets           | (4,406)            | (4,566)          |
| Amortization                             | 1,057              | 702              |
| Net periodic benefit cost (credit)       | \$ 20              | \$ (394)         |
| <b>Pension Benefits - Non U.S. Plans</b> |                    |                  |
| Service cost                             | \$ 313             | \$ 273           |
| Interest cost                            | 926                | 1,046            |
| Expected return on plan assets           | (182)              | (226)            |
| Amortization                             | 89                 | 174              |
| Net periodic benefit cost                | \$ 1,146           | \$ 1,267         |
| <b>Other Post-Retirement Benefits</b>    |                    |                  |
| Service cost                             | \$ -               | \$ -             |
| Interest cost                            | 167                | 131              |
| Amortization                             | 120                | 88               |
| Net periodic benefit cost                | \$ 287             | \$ 219           |

Employer contributions to the pension plans during the period ended April 2, 2010 were \$2.9 million. Expected contributions to the pension plans for 2010 are \$10.5 million, including \$5.0 million of prepayments of 2011 required contributions.

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## 11. Share-Based Payments

The Company measures and recognizes compensation expense relating to share-based payments based on the fair value of the instruments issued. Generally, our stock-based compensation expense is recognized as a component of “Selling, general and administrative expenses”, as payroll costs of the employees receiving the awards are recorded in the same line item. Stock-based compensation expense related to the departure of the Company’s former President and CEO in January 2010 was recognized as a component of “Restructuring and other related charges”. For the three months ended April 2, 2010, a total of \$1.1 million of compensation expense and \$0.4 million of deferred tax benefits were recognized, which included \$0.6 million of compensation expense related to the former President and CEO’s departure. Compensation expense recognized for the former President and CEO reflects the accelerated vesting of certain stock options and performance-based restricted stock units on January 9, 2010. For the three months ended April 3, 2009, \$0.6 million of compensation cost and deferred tax benefits of approximately \$0.2 million were recognized. At April 2, 2010, the Company had \$8.5 million of unrecognized compensation expense related to stock-based awards that will be recognized over a weighted-average period of approximately 2.5 years. At April 2, 2010, the Company had issued stock-based awards that are described below.

### Stock Options

Stock-based compensation expense for stock option awards was based on the grant-date fair value using the Black-Scholes option pricing model. We recognize compensation expense for stock option awards on a ratable basis over the requisite service period of the entire award. The following table shows the weighted-average assumptions we used to calculate fair value of stock option awards using the Black-Scholes option pricing model, as well as the weighted-average fair value of options granted during the three months ended April 2, 2010.

|  | Three Months Ended<br>April 2, 2010 |
|--|-------------------------------------|
| <b>Assumptions used in Black-Scholes model:</b>                |                                     |
| Expected period that options will be outstanding (in years)    | 4.50                                |
| Interest rate (based on U.S. Treasury yields at time of grant) | 2.60%                               |
| Volatility   | 52.20%                              |
| Dividend yield   | -                                   |
| Fair value of options granted                                  | \$ 5.41                             |

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 has limited 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 2, 2010 is as follows:

|  | Shares under<br>option | Weighted-<br>average<br>exercise price | Remaining<br>contractual<br>term (years) | Aggregate<br>intrinsic value<br>(\$000) |
|--|------------------------|--|--|---|
| Options outstanding at December 31, 2009 | 1,267,633              | \$ 11.40                               |  |   |
| Granted                                  | 608,440                | 11.92                                  |  |   |
| Exercised                                | (3,503)                | 7.44                                   |  |   |

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|   |           |    |       |      |    |       |
|---|-----------|----|-------|------|----|-------|
| Forfeited                                   | (86,228)  |    | 10.80 |      |    |       |
| Options outstanding at April 2, 2010        | 1,786,342 | \$ | 11.61 | 6.08 | \$ | 3,031 |
| Vested or expected to vest at April 2, 2010 | 1,526,695 | \$ | 11.77 | 6.08 | \$ | 2,471 |
| Exercisable at April 2, 2010                | 488,926   | \$ | 11.31 | 5.64 | \$ | 1,285 |

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The aggregate intrinsic value is based on the difference between the Company's closing stock price at the balance sheet date and the exercise price of the stock option, multiplied by the number of in-the-money options. The amount of intrinsic value will change based on the fair value of the Company's stock.

#### Restricted Stock Units

Stock-based compensation expense for restricted stock awards was based on the grant-date fair value. 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. We recognize compensation expense for restricted stock awards ratably over the requisite service period for the award, when it is expected any performance criterion will be achieved.

The following table summarizes the Company's performance-based restricted stock units (PRSUs) and restricted stock units (RSUs) and activity for the three months ended April 2, 2010:

| Nonvested shares               | PRSUs     |  | RSUs    |  |
|--------------------------------|-----------|--|---------|--|
|                                | Shares    | Weighted-Average Grant Date Fair Value | Shares  | Weighted-Average Grant Date Fair Value |
| Nonvested at December 31, 2009 | 430,497   | \$ 10.22                               | 92,928  | \$ 11.97                               |
| Granted                        | 242,342   | 11.92                                  | 2,634   | 11.77                                  |
| Vested                         | (25,000)  | 18.00                                  | (4,537) | 10.71                                  |
| Cancelled and forfeited (1)    | (317,259) | 7.49                                   | -       | -                                      |
| Nonvested at April 2, 2010     | 330,580   | \$ 13.50                               | 91,025  | \$ 12.03                               |

(1) Includes the cancellations of 315,870 performance-based restricted stock units granted in March 2009, since the performance criterion was not achieved.

#### 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 estimated fair value of the Company's long-term debt of \$87.4 million and \$88.6 million at April 2, 2010 and December 31, 2009, respectively, was 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.

A summary of the Company's assets and liabilities that are measured at fair value on a recurring basis for each fair value hierarchy level for the periods presented follows:

|                                | Total     | Level 1   | Level 2  | Level 3 |
|--------------------------------|-----------|-----------|----------|---------|
| <b>As of April 2, 2010</b>     |           |           |          |         |
| <b>Assets:</b>                 |           |           |          |         |
| Cash equivalents               | \$ 46,145 | \$ 46,145 | \$ -     | \$ -    |
| <b>Liabilities:</b>            |           |           |          |         |
| Interest rate swap             | \$ 2,765  | \$ -      | \$ 2,765 | \$ -    |
| Foreign currency contracts     | 357       | -         | 357      | -       |
|                                | \$ 3,122  | \$ -      | \$ 3,122 | \$ -    |
| <b>As of December 31, 2009</b> |           |           |          |         |
| <b>Assets:</b>                 |           |           |          |         |
| Cash equivalents               | \$ 33,846 | \$ 33,846 | \$ -     | \$ -    |
| <b>Liabilities:</b>            |           |           |          |         |
| Interest rate swap             | \$ 3,035  | \$ -      | \$ 3,035 | \$ -    |
| Foreign currency contracts     | 121       | -         | 121      | -       |
|                                | \$ 3,156  | \$ -      | \$ 3,156 | \$ -    |

There were no significant transfers between level 1 and level 2 during the period ended April 2, 2010.

#### Cash Equivalents

The Company's cash equivalents consist of investments in interest-bearing deposit accounts and money market mutual funds which are valued based on quoted market prices. The fair value of these investments approximate cost due to their short-term maturities and the high credit quality of the issuers of the underlying securities. Interest rate swaps are valued based on forward curves observable in the market. Foreign currency contracts are measured using broker quotations or observable market transactions in either listed or over-the-counter markets. There were no changes during the periods presented in the Company's valuation techniques used to measure asset and liability fair values on a recurring basis.

#### Derivatives

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.

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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 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 \$2.8 million at April 2, 2010 and \$3.0 million at December 31, 2009, 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. For both the three months ended April 2, 2010 and April 3, 2009, \$0.7 million of losses on the interest rate swap were reclassified from AOCI to interest expense. As of April 2, 2010, the Company expects to reclassify \$2.1 million of net losses on the interest rate swap from AOCI to earnings during the next twelve months.

As of April 2, 2010 and December 31, 2009, the Company had no open commodity futures contracts, but in previous periods had copper and nickel futures contracts. The Company did not elect hedge accounting for these contracts, and therefore changes in the fair value were recognized in earnings. For the three months ended April 3, 2009, the consolidated statements of operations include \$0.9 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.

The Company had foreign currency contracts with notional values of \$8.5 million at April 2, 2010 and \$10.5 million at December 31, 2009. The fair values of the contracts were liabilities of 0.4 million at April 2, 2010 and \$0.1 million at December 31, 2009, 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 2, 2010 and April 3, 2009, respectively, the consolidated statements of operations include \$0.3 million and \$0.8 million of unrealized losses as a result of changes in the fair value of these contracts. Realized losses on these contracts of \$0.4 million were recognized in the three months ended April 2, 2010, and realized gains of \$0.1 million were recognized in the three months ended April 3, 2009.

### 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.

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.

Of the 25,306 pending claims, approximately 4,100 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 200 of such claims have been brought in the Superior Court, Middlesex County, New Jersey; and approximately 1,300 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.

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

|  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | April 2,<br>2010   | April 3,<br>2009 |
| Claims unresolved at the beginning of the period | 25,295             | 35,357           |
| Claims filed (2)                                 | 1,330              | 953              |
| Claims resolved (3)                              | (1,319)            | (1,889)          |
| Claims unresolved at the end of the period       | 25,306             | 34,421           |

- (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 insurance coverage resulting from the independent corporate history of each entity. In its evaluation of the insurance asset, in addition to the criteria listed above, the Company used differing insurance allocation methodologies for each subsidiary based upon the applicable law pertaining to the affected subsidiary.

For one of the subsidiaries, on October 14, 2009, the Delaware Court of Chancery ruled that asbestos-related costs should be allocated among excess insurers using an “all sums” allocation (which allows an insured to collect all sums paid in connection with a claim from any insurer whose policy is triggered, up to the policy’s applicable limits) and that the subsidiary has rights to excess insurance policies purchased by a former owner of the business. Based upon this ruling mandating an “all sums” allocation, as well as the language of the underlying insurance policies and the determination that defense costs are outside policy limits, the Company expects to be responsible for approximately 10% of all future asbestos-related costs.

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-related bodily injury claims asserted against it. Although none of these 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. Further court rulings in December of 2009, clarified the allocation calculation related to amounts currently due from insurers as well as amounts the Company expects to be reimbursed for asbestos-related costs incurred in future periods. The subsidiary expects to be responsible for



approximately 14% of all future asbestos-related costs.

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The Company has established reserves of \$442.8 million and \$443.8 million as of April 2, 2010 and December 31, 2009, 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 \$388.4 million and \$389.4 million as of April 2, 2010 and December 31, 2009, respectively, for the insurance recoveries that are deemed probable during the same time period. Net of these recoverables, the expected cash outlay on a non-discounted basis for asbestos-related bodily injury claims over the next 15 years was \$54.4 million and \$54.3 million as of April 2, 2010 and December 31, 2009, respectively. In addition, the Company has recorded a receivable for liability and defense costs previously paid in the amount of \$40.8 million and \$45.9 million as of April 2, 2010 and December 31, 2009, 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”. The receivable for previously paid liability and defense costs is recorded in “Asbestos insurance receivable” and “Long-term asbestos insurance receivable” in the accompanying consolidated balance sheets.

The expense related to these liabilities and legal defense was \$1.4 million, net of estimated insurance recoveries, for the three months ended April 2, 2010 compared to \$1.6 million for the three months ended April 3, 2009. Legal costs related to the subsidiaries’ action against their asbestos insurers were \$3.9 million for the three months ended April 2, 2010 compared to \$3.0 million for the three months ended April 3, 2009.

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 April 2, 2010, there were \$14.2 million of letters of credit outstanding. Additionally, at April 2, 2010, we had issued \$13.3 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. (“Litton”) 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. After appeals by both parties, the Supreme Court of New Jersey upheld the plaintiffs’ right to a refund of their attorney’s fees and costs of trial, but remanded the issue to the trial court to reconsider the amount of fees using a proportionality analysis of the relationship between the fee requested and the damages recovered. The date for the new trial on additional claims allowed by the Appellate Division of the New Jersey Superior Court and the recalculation of attorney’s fees has not been set. The subsidiary intends to continue to defend this matter vigorously. At April 2, 2010, the Company’s consolidated balance sheet includes a liability, reflected in “Other liabilities”, related to this matter of \$9.5 million.

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, 2009 filed with the SEC on February 25, 2010.

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 our 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, finance, acquire and successfully integrate attractive acquisition targets;
- the amount of and our ability to estimate our asbestos-related liabilities;

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- material disruption at any of our significant manufacturing facilities;
- the solvency of our insurers and the likelihood of their 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;

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- 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, 2009 filed with the SEC on February 25, 2010.

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 defense 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

We believe that we are well positioned to grow our business organically over the long term by enhancing our product offerings and expanding our customer base in our strategic markets. The current global economic downturn had a significant impact on our orders, sales and operating profit in 2009 when compared to 2008 and when comparing the first quarter of 2010 to the first quarter of 2009. We have seen improvement in most of our end markets, as evidenced by a 22% increase in orders from existing businesses in the first quarter of 2010 compared to the fourth quarter of 2009. We have had project delivery push-outs as well as order cancellations that may continue throughout 2010. In addition, we will continue to monitor general global economic conditions and expect the following market conditions:

• 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 over the long

term. We also believe the increase in the size of the global fleet will create an opportunity to supply aftermarket parts and service. In addition, we believe pending and future environmental regulations will enhance the demand for our products. Based on the decline in orders in 2009 and our current backlog, we expect sales to decline in 2010 from 2009 levels. We expect orders in 2010 to increase; however, we are also likely to have additional order cancellations as well as delivery date extensions in the near term.

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In the crude oil industry, we expect long term activity to remain favorable as capacity constraints and global demand drive further development of heavy oil fields. 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, a reduction in capital investment by our customers due to recent weak economic conditions and volatile oil prices has been negatively impacting sales and orders. Projects that were delayed in 2009 are being restarted and we expect sales to be at similar levels in 2010, while we expect growth in orders.

In the power generation industry, over the long term we expect activity in Asia and the Middle East to remain solid as economic growth and fundamental undersupply of power generation capacity continue to drive investment in energy infrastructure projects. In the world's developed economies, we expect efficiency improvements will continue to drive demand. In 2010, we expect sales to be at similar levels versus 2009, but we expect orders to decline in part due to a policy decision to exit certain business in the Middle East.

In the U.S. defense industry, 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 growth in sales during 2010 and expect orders to decline as a result of the significant growth in orders in 2009 and the timing of projects.

In the general industrial market, we expect long-term demand to be driven by capital investment. While this market is very diverse, orders in 2009 declined compared to 2008 in all submarkets and most significantly in the chemical, distribution, machinery support and building products markets and in portions of the general industrial market, primarily in Europe and North America. We expect growth in both orders and sales in 2010.

Our global manufacturing sales and distribution network allows us to target fast growing regions throughout the world. We have production and distribution facilities in India and China and opened a Middle East sales and engineering office in Bahrain in 2009. We intend to leverage these investments to grow our market share in these emerging markets and plan to continue to invest in sales and marketing resources to increase our overall coverage.

We will also continue to target aftermarket opportunities in our strategic markets as we generally are able to generate higher margins on aftermarket parts and service than on foremarket opportunities. For the three months ended April 2, 2010, aftermarket sales and services represented approximately 27% of our revenues.

We also expect to continue to grow as a result of strategic acquisitions. We believe that the extensive experience of our management team in acquiring and effectively integrating acquisition targets should enable us to capitalize on opportunities in the future.

Based on declining orders and our culture of continuous improvement, we initiated a series of restructuring actions beginning in 2009 to better position the Company's cost structure for future periods. We continue to monitor 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 our business using several measures, including net sales, orders and order backlog. Our sales, orders and backlog are affected by many factors, particularly the impact of acquisitions, the impact of fluctuating foreign exchange rates and change from our existing businesses which may be driven by market conditions and other factors. 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, orders and backlog in tabular format under



the heading “Sales and Orders.”

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Orders and order backlog are highly indicative of our future revenue and thus are key measures of anticipated performance. Orders consist of contracts 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. General economic conditions as well as backlog levels may, however, impact future seasonal variations.

#### Results of Operations

##### Items Affecting Comparability of Reported Results

The comparability of our operating results for the three months ended April 2, 2010 and April 3, 2009 is affected by the following significant items:

##### Acquisitions

Acquisitions affect our reported results and can make period to period comparisons of results difficult. As a result, we disclose our sales growth between periods both from existing and acquired businesses.

On August 31, 2009, we completed the acquisition of PD-Technik Ingenieurbüro GmbH (“PD-Technik”), a provider of marine aftermarket related products and services located in Hamburg, Germany, for \$1.3 million, net of cash acquired in the transaction.

##### Foreign Currency Fluctuations

A significant portion of our sales, approximately 68% for the three months ended April 2, 2010, are derived from operations outside the U.S., with the majority of those sales 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 are quantified, when significant, in our discussion of the results of our operations.

##### Restructuring and Other Related Charges

Our results for the three months ended April 2, 2010 and April 3, 2009 include \$4.0 million and \$0.7 million, respectively, of restructuring and other related charges incurred to better position the Company’s cost structure for future periods. The costs incurred in the first quarter of 2010 include \$2.2 million of termination benefits, including \$0.6 million of non-cash stock-based compensation expense, related to the departure of the Company’s former President and CEO in January 2010.

##### Asbestos Liability and Defense Costs

Asbestos liability and defense costs 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.



The table below presents asbestos liability and defense costs for the periods indicated:

| (Amounts in millions)                | Three Months Ended |                  |
|--------------------------------------|--------------------|------------------|
|                                      | April 2,<br>2010   | April 3,<br>2009 |
| Asbestos liability and defense costs | \$ 1.4             | \$ 1.6           |

Asbestos liability and defense costs were \$1.4 million for the three months ended April 2, 2010 compared to \$1.6 million for the three ended April 3, 2009. The decrease in asbestos liability and defense costs for the quarter ended April 3, 2010 was attributable to a slight decrease in legal spending.

#### Asbestos Coverage Litigation Expense

Asbestos coverage litigation expenses include legal costs related to the actions against two of our subsidiaries' respective insurers and a former parent company of one of the subsidiaries.

The table below presents coverage litigation expenses for the periods indicated:

| (Amounts in millions)                 | Three Months Ended |                  |
|---------------------------------------|--------------------|------------------|
|                                       | April 2,<br>2010   | April 3,<br>2009 |
| Asbestos coverage litigation expenses | \$ 3.9             | \$ 3.0           |

Legal costs related to the subsidiaries' action against their asbestos insurers were \$0.9 million higher than the prior year quarter primarily due to costs incurred by one of our subsidiaries related to the trial of its litigation against a number of its insurers and former parent that began in January 2010.

#### Sales and Orders

Our sales, orders and backlog are affected by many factors including but not limited to acquisitions, fluctuating foreign exchange rates, and growth (decline) in our existing businesses which may be driven by market conditions and other factors. To facilitate the comparison between reporting periods, we disclose the impact of each of these three 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. Growth due to acquisitions includes incremental sales due to an acquisition during the period or incremental sales due to reporting a full year's sales for an acquisition that occurred in the prior year. Sales growth (decline) from existing businesses excludes both the impact of foreign exchange rate fluctuations and acquisitions, thus providing a measure of growth (decline) 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 contracts 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 and backlog growth (decline) are presented on the same basis as sales growth (decline).

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

| (Amounts in millions)            | Sales    |         | Orders   |        | Backlog at Period End |         |
|----------------------------------|----------|---------|----------|--------|-----------------------|---------|
| Three Months Ended April 3, 2009 | \$ 136.3 |         | \$ 123.1 |        | \$ 322.3              |         |
| <b>Components of Change:</b>     |          |         |          |        |                       |         |
| Existing businesses              | (23.3)   | (17.1)% | (10.0)   | (8.2)% | (50.9)                | (15.8)% |
| Acquisitions                     | 0.5      | 0.4%    | 0.8      | 0.7%   | 1.3                   | 0.4%    |
| Foreign currency translation     | 6.5      | 4.7%    | 5.7      | 4.6%   | 8.6                   | 2.7%    |
| Total                            | (16.3)   | (12.0)% | (3.5)    | (2.9)% | (41.0)                | (12.7)% |
| Three Months Ended April 2, 2010 | \$ 120.0 |         | \$ 119.6 |        | \$ 281.3              |         |

| (Amounts in millions)                          | Three Months Ended |                 |
|--|--------------------|-----------------|
|  | April 2, 2010      | April 3, 2009   |
| <b>Net Sales by Product:</b>                   |                    |                 |
| Pumps, including aftermarket parts and service | \$ 101.1           | \$ 121.4        |
| Systems, including installation service        | 14.6               | 12.5            |
| Valves   | 3.4                | 1.6             |
| Other  | 0.9                | 0.8             |
| <b>Total net sales</b>                         | <b>\$ 120.0</b>    | <b>\$ 136.3</b> |

As detailed above, for the three months ended April 2, 2010, sales decreased by \$16.3 million, or 12.0% over the three months ended April 3, 2009. Sales from existing businesses were down 17.1%, which was partially offset by a positive currency translation effect of 4.7%, primarily due to a weaker average U.S. dollar against the Euro exchange rate in the first quarter of 2010 compared to the same period in 2009. Sales decline from existing businesses was primarily attributable to decreased demand in the commercial marine, general industrial, oil and gas and power generation end markets.

Although orders for the three months ended April 2, 2010 of \$119.6 million increased \$18.0 million over the fourth quarter of 2009, they declined \$3.5 million, or 2.9%, over the three months ended April 3, 2009. Orders from existing businesses declined 8.2%, which was partially offset by a positive currency translation effect of 4.6%. The decline in orders from existing businesses was primarily attributable to declines in demand in the global defense, power generation and oil and gas end markets. These declines were partially offset by order growth in the commercial marine and general industrial end markets. We experienced commercial marine order cancellations of approximately \$2.9 million for the three months ended April 2, 2010, compared to \$8.7 million for the three months ended April 3, 2009. Backlog as of April 2, 2010 of \$281.3 million decreased \$50.9 million, or 15.8%, excluding the impact of foreign currency translation and acquisitions, as compared to \$322.3 million at April 3, 2009. Since December 31, 2009, backlog decreased \$0.4 million, or 0.1%, excluding the impact of foreign currency translation which accounted for the remaining \$9.3 million of the decrease.

## Gross Profit

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

| (Amounts in millions) | Three Months Ended |                  |
|-----------------------|--------------------|------------------|
|                       | April 2,<br>2010   | April 3,<br>2009 |
| Gross profit          | \$ 41.8            | \$ 48.0          |
| Gross profit margin   | 34.8%              | 35.2%            |

Gross profit of \$41.8 million for the three months ended April 2, 2010 decreased from \$48.0 million for the three months ended April 3, 2009. Gross profit from existing businesses decreased \$8.8 million, which was partially offset by a \$2.3 million positive impact of foreign exchange rates. Gross profit margin decreased 40 basis points to 34.8% for the three months ended April 2, 2010 from 35.2% for the three months ended April 3, 2009. The slight margin decline was driven by an unfavorable global product mix shift as well as reduced production, which were largely offset by cost savings from restructuring programs.

## Selling, General and Administrative Expenses (“SG&amp;A”)

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

| (Amounts in millions)                  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | April 2,<br>2010   | April 3,<br>2009 |
| SG&A expenses                          | \$ 29.9            | \$ 29.5          |
| SG&A expenses as a percentage of sales | 24.9%              | 21.7%            |

Selling, general and administrative expenses of \$29.9 million for the three months ended April 2, 2010 were relatively flat compared to the three months ended April 3, 2009. Excluding a \$1.4 million unfavorable impact of foreign exchange rates, SG&A declined \$1.0 million, primarily due to lower losses on commodity and foreign currency derivatives as well as lower commission expense, partially offset by higher net periodic pension and other post-retirement benefit costs.

## Operating Income

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

| (Amounts in millions) | Three Months Ended |                  |
|-----------------------|--------------------|------------------|
|                       | April 2,<br>2010   | April 3,<br>2009 |
| Operating income      | \$ 0.9             | \$ 11.8          |
| Operating margin      | 0.7%               | 8.7%             |

Operating income for the three months ended April 2, 2010 declined \$10.9 million to \$0.9 million from \$11.8 million for the three months ended April 3, 2009. The decline was primarily due to lower sales volume from existing businesses and unfavorable product mix changes in our European operations. An additional \$3.4 million of restructuring and other related charges compared to the prior year quarter was partially offset by an \$0.8 million

favorable impact of foreign exchange rates.

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## Interest Expense

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

Interest expense was \$1.8 million for both the three months ended April 2, 2010 and April 3, 2009. An increase in the weighted-average effective interest rate on our variable rate borrowings that are not hedged, from 5.6% for three months ended April 3, 2009 to 5.7% for the three months ended April 2, 2010 was offset by lower debt levels in the current year quarter compared to the prior year period.

## Provision for Income Taxes

The effective income tax rate for the three months ended April 2, 2010 was 29.0% as compared to an effective tax rate of 31.1% for the three months ended April 3, 2009. Our effective tax rate for the three months ended April 2, 2010 was lower than the U.S. federal statutory rate primarily due to international tax rates which are lower than the U.S. tax rate. For the three months ended April 3, 2009, the effective tax rate of 31.1% was lower than the U.S. statutory rate, including the impact of the reduction of the Swedish tax rate from 28% to 26.3% that is applied to our Swedish operations.

## 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 2, 2010, we had approximately \$135.8 million available on our revolver loan and we had \$60.2 million of cash.

### Borrowings

During the three months ended April 2, 2010, we repaid \$1.3 million of the outstanding balance of our Term A Note, leaving \$90.0 million outstanding at the end of the period. At April 2, 2010, the interest rate on the Term A Note was 2.50% inclusive of 2.25% margin and the annual commitment fee on our \$150.0 million revolver was 0.4%. At April 2, 2010, there was \$14.2 million outstanding on the letter of credit sub-facility, leaving approximately \$135.8 million available under the revolver loan. Of the total \$135.8 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 for the previous twelve months. 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 2, 2010 and expects to be in compliance for the next 12 months.

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## Comparative Cash Flows

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

| (Amounts in millions)                     | Three Months Ended |                  |
|---|--------------------|------------------|
|   | April 2,<br>2010   | April 3,<br>2009 |
| Net cash provided by operating activities | \$ 16.1            | \$ 10.7          |
| Purchases of fixed assets                 | (2.5)              | (3.1)            |
| Net cash used in investing activities     | \$ (2.5)           | \$ (3.1)         |
| Repayment of borrowings                   | (1.3)              | (1.3)            |
| Other uses, net                           | -                  | (0.2)            |
| Net cash used in financing activities     | \$ (1.3)           | \$ (1.5)         |

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 received (paid) for asbestos-related costs net of insurance proceeds, including the disposition of claims, defense costs and legal expenses related to litigation against our insurers, created variability in our operating cash flows. For the three months ended April 2, 2010, net cash received from insurance settlements, net of asbestos-related costs paid, was \$5.7 million. For the three months ended April 3, 2009, net cash paid for asbestos-related costs, net of insurance settlements received, was \$(1.1) million.

Funding requirements of our defined benefit plans, including both pensions and other post-retirement benefits, can vary significantly from period to period due to changes in the fair value of plan assets and actuarial assumptions. For the three months ended April 2, 2010 and April 3, 2009, cash contributions for defined benefit plans were \$2.9 million and \$1.3 million, respectively.

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, declined \$10.6 million from December 31, 2009 to April 2, 2010, primarily due to decreases in trade receivables and inventory levels due to lower sales volumes.

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 2, 2010 and April 3, 2009, net working capital as a percentage of annualized sales was 22.8% and 23.4%, 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 annual revenues.

Financing cash flows consist primarily of repayments of indebtedness.

ÿ During the three months ended April 2, 2010, we repaid \$1.3 million of long-term borrowings.

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### 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 2, 2010 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, 2009 filed with the SEC on February 25, 2010.

### 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 2, 2010 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 April 2, 2010 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 2, 2010 would have increased our interest cost by approximately less than \$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 \$2.8 million at April 2, 2010. 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 2, 2010, approximately 68% of our sales were derived from operations outside the U.S., with approximately 64% 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, the loss before income taxes for the three months ended April 2, 2010 would have decreased by \$0.9 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; however, as of April 2, 2010, we had no open copper or nickel futures contracts.

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#### 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 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. 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, 2009 filed with the SEC on February 25, 2010.

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

None.

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Other Information

None.



Item 5. Exhibits

| Exhibit No. | Exhibit Description   |
|-------------|---|
| 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.                                   |

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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/ CLAY H. KIEFABER<br>Clay H. Kiefaber | President and Chief Executive Officer<br>(Principal Executive Officer)  | April 29, 2010 |
| /s/ G. SCOTT FAISON<br>G. Scott Faison   | Senior Vice President, Finance and<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) | April 29, 2010 |