Colfax CORP
Form 10-K
March 06, 2009
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

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	**54-1887631**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

8730 Stony Point Parkway, Suite 150 Richmond, Virginia	**23235**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: 804-560-4070

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange On Which Registered**
Common Stock, $.001 par value	**New York Stock Exchange**

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

NONE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

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

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (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 x

The aggregate market value of common shares held by non-affiliates of the Registrant on June 27, 2008 was $625,408,555 based upon the closing price of the registrant s common shares as quoted on the New York Stock Exchange composite tape on such date.

As of February 28, 2009, the number of shares of registrant s common stock outstanding was 43,211,026.

EXHIBIT INDEX APPEARS ON PAGE 79

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant s definitive proxy statement for its 2009 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the end of the registrant s fiscal year covered by this report. With the exception of the sections of the 2009 proxy statement specifically incorporated herein by reference, the 2009 proxy statement is not deemed to be filed as part of this Form 10-K.

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Unless otherwise indicated, references in this Form 10-K to Colfax , the Company , we , our and us refer to Colfax Corporation and its subsidiaries.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Annual Report 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 Annual Report 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 expressi based on assumptions and assessments made by our management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including but not limited to the following:

- risks associated with our international operations;
- significant movements in foreign currency exchange rates;
- changes in the general economy, including the current global financial crisis and economic downturn, as well as the cyclical nature of our markets;
- availability and cost of raw materials, parts and components used in our products;
- the competitive environment in our industry;
- our ability to identify, acquire and successfully integrate attractive acquisition targets;
- the amount of and our ability to estimate our asbestos-related liabilities;
- material disruption at any of our significant manufacturing facilities;
- the solvency of our insurers and the likelihood of payment for asbestos-related claims;
- our ability to manage and grow our business and execution of our business and growth strategies;

loss of key management;

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

our ability to expand our business in our targeted markets;

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

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

our financial performance; and

others risks and factors, listed in Item 1A. Risk Factors in Part I of this Form 10-K.

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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 Annual Report 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. See Item IA. Risk Factors in Part I of this Form 10-K for a further discussion regarding some of the reasons that actual results may be materially different from those that we anticipate.

PART I

ITEM 1. BUSINESS

General

Colfax Corporation 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 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 have a global manufacturing footprint, with production facilities in Europe, North America and Asia, as well as worldwide sales and distribution channels.

We employ a comprehensive set of tools that we refer to as the Colfax Business System, or 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. Modeled on the Danaher Business System, CBS focuses on conducting root-cause analysis, developing process improvements and implementing sustainable systems. Our approach addresses the entire business, not just manufacturing operations.

We currently serve markets that have a need for highly engineered, critical fluid handling solutions and are global in scope. Our strategic markets include:

Strategic Markets	Applications
Commercial Marine	Fuel oil transfer; oil transport; water and wastewater handling
Oil and Gas	Crude oil gathering; pipeline services; unloading and loading; rotating equipment lubrication; lube oil purification
Power Generation	Fuel unloading, transfer, burner and injection; rotating equipment lubrication
Global Navy	Fuel oil transfer; oil transport; water and wastewater handling; firefighting; fluid control
General Industrial	Machinery lubrication; hydraulic elevators; chemical processing; pulp and paper processing; food and beverage processing

We serve a global customer base across multiple markets through a combination of direct sales and marketing associates and third-party distribution channels. Our customer base is highly diversified and includes commercial, industrial and government customers such as Alfa Laval Group, Cummins Inc., General Dynamics, Hyundai Heavy Industries Co., Ltd., Siemens AG, Solar Turbines Incorporated, ThyssenKrupp AG, the U.S. Navy and various sovereign navies around the world. Our business is not dependent on any single customer or a few customers. In 2008, no single customer represented more than 3% of sales.

Our business began with an initial investment by our founders in 1995 with the intention to acquire, manage and create a world-class industrial manufacturing company. We seek to acquire businesses with leading market positions and brands that exhibit strong cash flow generation potential. With our management expertise and the introduction of CBS into our acquired businesses, we pursue growth in revenues and improvements in operating margins.

Since our platform acquisitions of Imo and Allweiler in 1997 and 1998, respectively, we have completed additional acquisitions that have broadened our fluid handling product portfolio and geographic footprint. A summary of recent acquisition activity follows:

In June 2004, we acquired the net assets of Zenith, a leading manufacturer of precision metering pumps for the general industrial market.

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In August 2004, we acquired the net assets of Portland Valve, a manufacturer of specialty valves used primarily for naval applications.

In August 2005, we acquired Tushaco, a leading manufacturer of rotary positive displacement pumps in India.

In January 2007, we acquired LSC, a manufacturer of fluid handling systems. LSC designs, manufactures, installs and maintains oil mist lubrication and oil purification systems in refineries, petrochemical plants and other processing facilities.

In November 2007, we acquired Fairmount, an original equipment manufacturer of mission critical programmable automation controllers in fluid handling applications primarily for the U.S. Navy.

In addition to our acquisitions, in 2005 we opened a greenfield production facility in Wuxi, China to manufacture and assemble complete products and systems for our customers in China and other Asian markets and to supply low cost components and parts for our existing operations.

Our Industry

Based on industry data supplied by The Freedonia Group, Elsevier, European Industrial Forecasting and the Hydraulic Institute, we estimate the worldwide fluid handling market, which we define as industrial pumps, valves, and gaskets and seals, to have been $125 billion in 2007. Within this market, we primarily compete in the estimated $3.8 billion global rotary positive displacement pump market, a sub-section of the estimated $12 billion positive displacement pump market. We are also a competitor in the estimated $19 billion centrifugal pump market and the estimated $60 billion valve market.

We believe that there are over 10,000 companies competing in the worldwide fluid handling industry. The fluid handling industry s customer base is broadly diversified across many sectors of the economy, and we believe customers place a premium on quality, reliability, availability and design and application engineering support. Because products in the fluid handling industry often are used as components in critical applications, we believe the most successful industry participants are those that have the technical capabilities to meet customer specifications, offer products with reputations for quality and reliability and can provide timely delivery and strong aftermarket support.

Competitive Strengths

Strong Market Positions, Broad Product Portfolio and Leading Brands. We believe that we are a leading manufacturer of rotary positive displacement pumps, which include screw pumps, gear pumps and progressive cavity pumps. We offer a broad portfolio of fluid handling products that fulfill critical needs of customers across numerous industries. Our brands are among the oldest and most recognized in the markets in which we participate.

Strong Application Expertise. We believe that our reputation for quality and technical expertise positions us as a premium supplier of fluid handling products. With over 140 years of experience, we have significant expertise in designing and manufacturing fluid handling products that are used in critical applications, such as lubricating power generation turbines, transporting crude oil through pipelines, and transferring heavy fuel oil in commercial marine vessels.

Extensive Global Sales, Distribution and Manufacturing Network. We sell our products through over 300 direct sales and marketing associates and more than 450 authorized distributors in approximately 80 countries. We believe that our global reach within the highly fragmented, worldwide fluid handling industry provides us with an ability to better serve our customers. Our European, North American and Asian manufacturing capabilities provide us with the ability to optimize material sourcing, transportation and production costs and reduce foreign currency risk.

We Use CBS to Continuously Improve Our Business. CBS is our business system designed to encourage a culture of continuous improvement in all aspects of our operations and strategic planning. Modeled on the Danaher Business System, CBS focuses on conducting root-cause analysis, developing process improvements and implementing sustainable systems. Our approach addresses the entire business, not just manufacturing operations.

Large Installed Base Generating Aftermarket Sales and Service. With a history dating back to 1860, we have a significant installed base across numerous industries. Because of the critical applications in which our products are used and the high quality and reliability of our products, we believe there is a tendency to replace like for like products. This tendency leads to significant

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aftermarket demand for replacement products as well as for spare parts and service. In the year ended December 31, 2008, we estimate that approximately 24% of our revenues were derived from aftermarket sales and services.

Broad and Diverse Customer Base. Our customer base spans numerous industries and is geographically diverse. Approximately 78% of our sales in 2008 were delivered to customers outside of the U.S. In addition, no single customer represented more than 3% of our sales during this period.

Management Team with Extensive Industry Experience and Focus on Strategic Development. We are led by a senior management team with an average of over 20 years of experience in industrial manufacturing. John A. Young, our President and Chief Executive Officer, is one of our founders and played a key role in developing the acquisition strategy that has formed our company. Since 1995, as part of this strategy, we have acquired 12 companies and divested businesses that do not fit within our long-term growth strategy. We believe that we have extensive experience in acquiring and effectively integrating attractive acquisition targets.

Growth Strategy

We intend to continue to increase our sales, expand our geographic reach, broaden our product offerings, and improve our profitability through the following strategies:

Apply CBS to Drive Profitable Sales Growth and Increase Shareholder Value. The core element of our management philosophy is CBS, which we implement in each of our businesses. CBS focuses our organization on continuous improvement and performance goals by empowering our associates to develop innovative strategies to meet customer needs. Rather than a static process, CBS continues to evolve as we benchmark ourselves against best-in-class industrial companies. Beyond the traditional application of cost control, overhead rationalization, global process optimization, and implementation of lean manufacturing techniques, we utilize CBS to identify strategic opportunities to enhance future sales growth. The foremost principle of CBS is the *Voice of the Customer*, which drives our activities to continuously improve customer service, product quality, delivery and cost. The *Voice of the Customer* is instrumental in the development of new products, services and solutions by utilizing a formal interview process with the end users of our products to identify pain points or customer needs. By engaging end users in the discussion, rather than solely relying on salespeople or channel partners for anecdotal input, we see the real issues and opportunities. We then prioritize these opportunities with the intention of implementing novel or breakthrough ideas that uniquely solve end-user needs. By continuing to apply the methodology of CBS to our existing businesses as well as to future acquisitions, we believe that we will be able to continue to introduce innovative new products and solutions, improve operating margins and increase the asset utilization of our businesses. As a result, we believe we can create profitable sales growth, generate excess cash flow to fund future acquisitions and increase shareholder value.

Execute Market Focused Strategies. We have aligned our marketing and sales organization into market focused teams designed to coordinate global activity around five strategic markets: commercial marine, oil and gas, power generation, global navy and general industrial. These markets have a need for highly engineered, critical fluid handling solutions and are attractive due to their ongoing capital expenditure requirements, long term growth rates and global nature. We intend to use our application expertise, highly engineered and specialized products, broad product portfolio and recognized product brands to generate high margin incremental revenue.

Commercial Marine We provide complete fluid handling packages to shipbuilders throughout the world primarily for use in engine room applications. Our products are widely recognized for their superior reliability and lower total cost of ownership. The increased rate of commercial marine vessel construction in recent years has expanded our large installed base of fluid handling products and has generated increased aftermarket revenues. In addition to supplying our products for new vessels, we intend to continue to grow our aftermarket sales and services by optimizing our channels to improve market coverage. We also intend to expand our global reach by utilizing our Chinese and Indian operations to offer locally manufactured products, to reduce production costs and to provide local customer service and support for the Asia Pacific region, an area where the majority of the commercial marine vessels are constructed.

Oil and Gas We provide a broad portfolio of fluid handling products for many oil and gas applications around the world. In particular, we have a strong presence in oil field tank farms, pipelines and refineries and also in Floating Production Storage and Offloading (FPSO) installations. We intend to continue to execute our strategy in the global crude oil transport market by targeting applications where our products can replace less efficient fluid handling alternatives. We also intend to leverage our position as a leading supplier of 2-screw

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pumps by developing complex turnkey systems to capture the growing need for fluid handling solutions that can undertake the difficult task of handling varying mixtures of heavy crude oil, natural gas and water at the same time. Additionally, we expect to continue to extend LSC s presence within the refinery market through increased market coverage and intend to broaden LSC s core lubrication offerings for new applications. We are also adding resources to the growing oil and gas markets around the world, including Asia, the Middle East and developing nations.

Power Generation We provide fluid handling products used in critical lubrication and fuel injection services for fossil fuel, hydro and nuclear power plants around the world. We believe that we have in-depth knowledge of fuel injection and lubrication applications, strong product brand names and a reputation for reliability in the power generation industry. Within this market we intend to continue our growth as a provider of turnkey systems by utilizing our expertise in power generation applications to develop innovative solutions. We also intend to leverage our global presence to strengthen our relationships with large original equipment manufacturers of power generation equipment to establish us as a critical supplier.

Global Navy For over 90 years we have supplied our specialty centrifugal and screw pumps to sovereign navies around the world, including the U.S. Navy and most of the major navies in Europe. With the acquisitions of Portland Valve and Fairmount, we have broadened our offering to include specialty valves and advanced control systems, respectively. We intend to continue to design, manufacture and sell high value fluid handling systems in order to meet the evolving requirements and standards of the navies around the world. Our engineers are also working with the U.S. Navy to incorporate electronics and advanced control algorithms into our products. We are also focused on expanding our repair and service capabilities as work is outsourced to private shipyards. As part of this strategy, we have established a waterfront repair and service facility in San Diego, California to complement our Portland, Maine facility in order to provide more responsive aftermarket support to the U.S. Navy.

General Industrial We provide fluid handling solutions for a broad array of general industrial applications, including machinery lubrication, commercial construction, chemical processing, pulp and paper processing and food and beverage processing, among others. We intend to continue to apply our application and engineering expertise to supply our customers with a portfolio of products that can solve their most critical fluid handling needs. We also intend to grow our presence in the general industrial market by targeting new applications for our existing products, deploying regionally focused strategies and leveraging our global presence and sales channels to sell our solutions worldwide.

Target Faster Growing Regions by Leveraging Our Global Manufacturing, Sales and Distribution Network. We intend to continue to leverage our strong global presence and worldwide network of distributors to capitalize on growth opportunities by selling regionally developed and marketed products and solutions throughout the world. As our customers have become increasingly global in scope, we have likewise increased our global reach to serve our customers by maintaining a local presence in numerous markets and investing in sales, marketing and manufacturing capabilities globally.

To further enhance our focus on serving our customers, we have developed and are in the process of implementing the Colfax Sales Office (CSO), a web-based selection, configuration, quotation, order entry and aftermarket tool to streamline the quote-to-order process. We believe that CSO, when fully installed, will significantly increase the speed of supplying quotes to our customers and will reduce our selling costs and increase our manufacturing efficiency. This is expected to be accomplished by eliminating many manual front-end processes and establishing an integrated, automated platform across brands to capture sales that otherwise would be lost due to increased response times.

Develop New Products, Applications and Technologies. We will continue to engineer our key products to meet the needs of new and existing customers and also to improve our existing product offerings to strengthen our market position. We intend to develop technological, or SMART, solutions, which incorporate advanced electronics, sensors and controls, through the use of our *Voice of the Customer* process to solve specific customer needs. We believe our SMART solutions will reduce our customers total cost of ownership by providing real-time diagnostic capabilities to minimize downtime, increase operational efficiency and avoid unnecessary costs. With the acquisition of Fairmount, we also intend to leverage its portfolio of advanced controls into our broader industrial offerings to develop innovative SMART fluid handling solutions.

To further align our product innovation efforts across our operations, we have established a global engineering center of excellence located at our office in Mumbai, India, which will collaborate with our global operations to design new products, modify existing solutions, identify opportunities to reduce manufacturing costs and increase the efficiency of our existing product lines. We also believe that we will be able to reallocate select engineering functions to our engineering center thereby freeing resources to spend time on higher value work.

Grow Our Offerings of Systems and Solutions. We will continue to provide high value added fluid handling solutions by utilizing our engineering and application expertise and our brand recognition and sales channels to drive incremental revenue. We intend to establish regional system manufacturing capabilities to address our customers desire to purchase turnkey modules and their preference for outsourced assembly.

Continue to Pursue Strategic Acquisitions that Complement our Platform. We believe that the fragmented nature of the fluid handling industry presents substantial consolidation and growth opportunities for companies with access to capital and the management expertise to execute a disciplined acquisition and integration program. We have successfully applied this strategy since our inception and plan to continue to seek companies that:

- enhance our position in our five strategic markets;
- have recognized, leading brands and strong industry positions;
- present opportunities to expand our product lines and services;
- have a reputation for high quality products;
- will broaden our global manufacturing footprint;
- complement or augment our existing worldwide sales and distribution networks; or
- present opportunities to provide operational synergies and improve the combined business operations by implementing CBS.

We believe that we can identify a number of attractive acquisition candidates in the future and that strategic acquisition growth will give us the opportunity to gain a competitive advantage relative to smaller operators through greater purchasing power, a larger international sales and distribution network and a broader portfolio of products and services.

Products

We design, manufacture and distribute fluid handling products that transfer or control liquids in a variety of applications. We also sell replacement parts and perform repair services for our manufactured products.

Our primary products, brands and their end uses include:

Fluid Handling Products	**Primary Brands**	**Primary End Uses**
Pumps		

	Allweiler, Houttuin, Imo, Warren, Tushaco and Zenith	Commercial marine, oil and gas, machinery lubrication, power generation, global navy and commercial construction
Fluid Handling Systems	Allweiler, Fairmount, Houttuin, Imo, LSC and Warren	Commercial marine, oil and gas, power generation and global navy
Specialty Valves	Portland Valve	Global navy

Pumps

Rotary Positive Displacement Pumps We believe that we are a leading manufacturer of rotary positive displacement pumps with a broad product portfolio and globally recognized brands. Rotary positive displacement pumps consist of a casing containing screws, gears, vanes or similar components that are actuated by the relative rotation of that component to the casing, which results in the physical movement of the liquid from the inlet to the discharge at a constant rate. Positive displacement pumps generally offer precise, quiet and highly efficient transport of viscous fluids. The U.S. Hydraulic Institute accredits 11 basic types of rotary positive displacement pumps, of which we manufacture five (3-screw, 2-screw, progressive cavity, gear and peristaltic).

Specialty Centrifugal Pumps Centrifugal pumps use the kinetic energy imparted by rotating an impeller inside a configured

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casing to create pressure. While traditionally used to transport large quantities of thin liquids, our centrifugal pumps use specialty designs and materials to offer customers high quality, reliability and customized solutions for a wide range of viscosities and applications. We position our specialty centrifugal pumps for applications where customers clearly recognize our brand value or in markets where centrifugal and rotary pumps are complimentary.

Fluid Handling Systems

We manufacture complete fluid handling systems used primarily in the oil and gas, power generation, commercial marine and global navy markets. We offer turnkey systems and support, including design, manufacture, installation, commission and service. Our systems include:

- oil mist lubrication systems, which are used in rotating equipment in oil refineries and other process industries;
- custom designed packages used in crude oil pipeline applications;
- lubrication and fuel forwarding systems used in power generation turbines;
- complete packages for commercial marine engine rooms; and
- fire suppression systems for navy applications.

Specialty Valves

Our specialty valves are used primarily in naval applications. Our valve business has specialized machining, welding and fabrication capabilities that enable it to serve as a prime contractor to the U.S. Navy. In addition to designing and manufacturing valves, we also offer repair and retrofit services for products manufactured by other valve suppliers through our aftermarket support centers located in Portland, Maine and San Diego, California.

Manufacturing

We manufacture and assemble our products at 16 locations in Europe, North America and Asia. This global manufacturing reach enables us to serve our customers wherever they choose to do business. Each of our manufacturing sites offers machining, fabrication and assembly capabilities that gives us the flexibility to source some of our products from multiple facilities. We believe that this flexibility enables us to minimize the impact of a manufacturing disruption if one of our facilities was to be damaged as a result of a natural disaster or otherwise. Our manufacturing facilities also benefit from the use of shared technology and collaboration across production lines, enabling us to increase operational efficiencies through the use of common suppliers and the duplication of production processes.

Competition

Our products and services are marketed on a worldwide basis. We believe that the principal elements of competition in our markets are:

- the ability to meet customer specifications;
- application expertise and design and engineering capabilities;

- product quality and brand name;
- timeliness of delivery;
- price; and
- quality of aftermarket sales and support.

The markets we serve are highly fragmented and competitive. Because we compete in selected niches of the fluid handling industry, there is not any single company that competes directly with us across all of our markets. As a result, we have many different competitors in each of our strategic markets. In the commercial marine market, we compete primarily with Naniwa Pump Manufacturing Co., Ltd., Shinko Industries, Ltd., Shin Shin Machinery Group Co., Ltd. and Taiko Kikai Industries Co., Ltd. In the oil and gas market, we compete primarily with Joh. Heinr. Bornemann GmbH, Leistritz Pumpen GmbH, Netzsch Mohnopumpen GmbH and Robbins & Myers, Inc. In the power generation market, we compete primarily with Buffalo Pumps, a subsidiary of Ampco-Pittsburgh Corporation. In the global navy market, we compete primarily with Buffalo Pumps, Carver Pump Company, Curtiss-Wright Corporation and Tyco International, Inc.

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Research and Development

We closely integrate research and development with marketing, manufacturing and product engineering in meeting the needs of our customers. Our business product engineering teams are continuously enhancing our existing products and developing new product applications for our growing base of customers that require custom solutions. We believe these capabilities provide a significant competitive advantage in the development of high quality fluid handling systems. Our product engineering teams focus on:

- lowering the cost of manufacturing our existing products;
- redesigning existing product lines to increase their efficiency or enhance their performance; and
- developing new product applications.

Expenditures for research and development for the years ended December 31, 2008, 2007 and 2006 were $5.9 million, $4.2 million and $3.3 million, respectively.

Intellectual Property

We rely on a combination of intellectual property rights, including patents, trademarks, copyrights, trade secrets and contractual provisions to protect our intellectual property. Although we highlight recent additions to our patent portfolio as part of our marketing efforts, we do not consider any one patent or trademark or any group thereof essential to our business as a whole or to any of our business operations. We also rely on proprietary product knowledge and manufacturing processes in our operations.

International Operations

Our products and services are available worldwide. We believe this geographic diversity allows us to draw on the skills of a worldwide workforce, provides stability to our operations, allows us to drive economies of scale, provides revenue streams that may offset economic trends in individual economies and offers us an opportunity to access new markets for products. In addition, we believe that future growth is dependent in part on our ability to develop products and sales models that target developing countries. Our principal markets outside the United States are in Europe, Asia, the Middle East and South America.

The manner in which our products and services are sold differs by region. Most of our sales in non-U.S. markets are made by subsidiaries located outside the United States, though we also sell into non-U.S. markets through various representatives and distributors and directly from the U.S. In countries with low sales volumes, we generally sell through representatives and distributors.

Financial information about our international operations is contained in Note 17 of the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data, and information about the possible effects of foreign currency fluctuations on our business is set forth in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. For a discussion of risks related to our non-U.S. operations and foreign currency exchange, please refer to Item 1A. Risk Factors.

Raw Materials and Backlog

We obtain raw materials, component parts and supplies from a variety of sources, generally from more than one supplier. Our principal raw materials are metals, castings, motors, seals and bearings. Our suppliers and sources of raw materials are based in both the United States and other countries, and we believe that our sources of raw materials are adequate for our needs for the foreseeable future. We believe that the loss of any one supplier would not have a material adverse effect on our business or results of operations.

Manufacturing turnaround time is generally sufficiently short to allow us to manufacture to order for most of our products, which helps to limit inventory levels. Backlog generally is a function of requested customer delivery dates and may range from days to several years based on the actual requested delivery dates. Backlog of orders as of December 31, 2008 was $337.3 million, compared with $292.8 million as of December 31, 2007. We expect to ship approximately 70% of our December 31, 2008 backlog during 2009; however, orders are subject to postponement or cancellation.

Seasonality

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

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Working Capital

We maintain an adequate level of working capital to support our business needs. There are no unusual industry practices or requirements related to working capital items.

Associates

The following table presents our full-time worldwide associate base as of the periods indicated:

	December 31,		
	2008	**2007**	**2006**
United States	739	701	548
Europe	1,170	1,096	1,034
Asia	299	262	216
Total	2,208	2,059	1,798

There are 42 associates in the United States covered by a collective bargaining agreement with the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers-Communications Workers of America (IUE-CWA). The contract with the union expires December 4, 2011 and provides for wage increases ranging from 3.5% to a maximum of 3.8% per year. In addition, in Germany, Sweden and the Netherlands, by law, approximately 42% of our associates are represented by trade unions in these jurisdictions, which subjects us to arrangements very similar to collective bargaining agreements. To date, we have not experienced any work stoppages or strikes that have had a material adverse impact on operations. We consider our relations with our associates to be good.

Government Contracts

Sales to U.S. government defense agencies and government contractors constituted approximately 5% of our revenue in 2008. We are subject to business and cost accounting regulations associated with our U.S. government defense contracts. Violations can result in civil, criminal or administrative proceedings involving fines, compensatory and treble damages, restitution, forfeitures, and suspension or debarment from U.S. government defense contracts.

Company Information and Access to SEC Reports

We were organized as a Delaware corporation in 1998. Our principal executive offices are located at 8730 Stony Point Parkway, Suite 150, Richmond, Virginia 23235, and our main telephone number at that address is (804) 560-4070. Our corporate website address is www.colfaxcorp.com.

We file our annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, and that website address is www.sec.gov. You may also read and copy any document we file at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as practicable after filing or furnishing the material to the SEC. You may also request a copy of these filings, at no cost, by writing or telephoning us at: Investor Relations, Colfax Corporation, 8730 Stony Point Parkway, Suite 150, Richmond, VA 23235, Telephone (804) 560-4070. Information contained on our website is not incorporated by reference in this report.

Certifications

The certifications of our Chief Executive Officer and Chief Financial Officer required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed as Exhibits 31 and 32 to this Annual Report on Form 10-K. As we have been a public company for less than one year, our Chief Executive Officer has not yet been required to submit to the New York Stock Exchange an annual CEO Certification pursuant to

Section 303A.12(a) of the NYSE Listed Company Manual.

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ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Annual Report on Form 10-K and other documents we file with the SEC. If any of the following risks actually occur, our business, financial condition or operating results could suffer. As a result, the trading price of our common stock could decline and you could lose all or part of your investment in our common stock. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties facing us and we caution that this list of risk factors may not be exhaustive. Our business is also subject to general risks and uncertainties that affect many other companies, such as overall U.S. and non-U.S. economic and industry conditions, a global economic slowdown, geopolitical events, changes in laws or accounting rules, fluctuations in interest rates, terrorism, international conflicts, natural disasters or other disruptions of expected economic or business conditions. We operate in a continually changing business environment, and new risk factors emerge from time to time which we cannot predict. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, including our results of operations, liquidity and financial condition.

Risks Related to Our Business

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

Our financial performance depends, in large part, on conditions in the markets we serve and on the general condition of the global economy. Any sustained weakness in demand, downturn or uncertainty in the global economy could reduce our sales and profitability and affect our financial performance. The current global economic downturn may materially affect demand for our products and we may not be able to predict the effect on our results. In addition, our products are sold in many industries, some of which are cyclical and may experience periodic downturns. Cyclical weakness in the industries we serve could lead to reduced demand for our products and affect our profitability and financial performance.

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

The majority of our sales are derived from international operations. We are subject to specific risks associated with international operations.

In the year ended December 31, 2008, we derived approximately 69% of our sales from operations outside of the U.S. and have manufacturing facilities in seven countries. Sales from international operations, export sales and the use of manufacturing facilities outside of the U.S. are subject to risks inherent in doing business outside the U.S. These risks include:

- economic instability;
- partial or total expropriation of our international assets;
- trade protection measures, including tariffs or import-export restrictions;
- currency exchange rate fluctuations and restrictions on currency repatriation;
- significant adverse changes in taxation policies or other laws or regulations; and

- the disruption of operations from political disturbances, terrorist activities, insurrection or war.

Significant movements in foreign currency exchange rates may harm our financial results.

We are exposed to fluctuations in currency exchange rates. In the year ended December 31, 2008, approximately 69% of our sales were denominated in currencies other than the U.S. dollar. We do not engage to a material extent in hedging activities intended to offset the risk of exchange rate fluctuations. Any significant change in the value of the currencies of the countries in which we do business against the U.S. dollar could affect our ability to sell products competitively and control our cost structure, which, in turn, could adversely affect our results of operations and financial condition.

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A significant portion of our revenues and income are denominated in Euros, Swedish Kronor and Norwegian Kroner. Consequently, depreciation of the Euro, Krona or Krone against the U.S. dollar has a negative impact on the income from operations of our European operations. Large fluctuations in the rate of exchange between the Euro, the Krona, the Krone and the U.S. dollar could have a material adverse effect on our results of operations and financial condition.

We are dependent on the availability of raw materials, as well as parts and components used in our products.

While we manufacture many of the parts and components used in our products, we require substantial amounts of raw materials and purchase parts and components from suppliers. The availability and prices for raw materials, parts and components may be subject to curtailment or change due to, among other things, suppliers allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and prevailing price levels. Any change in the supply of, or price for, these raw materials or parts and components could materially affect our business, financial condition, results of operations and cash flow. In addition, delays in delivery of components or raw materials by our suppliers could cause delays in our delivery of products to our customers.

The markets we serve are highly competitive and some of our competitors may have resources superior to ours. Responding to this competition could reduce our sales and operating margins.

We sell most of our products in highly fragmented and competitive markets. We believe that the principal elements of competition in our markets are:

- the ability to meet customer specifications;
- application expertise and design and engineering capabilities;
- product quality and brand name;
- timeliness of delivery;
- price; and
- quality of aftermarket sales and support.

In order to maintain and enhance our competitive position, we intend to continue our investment in manufacturing quality, marketing, customer service and support, and distribution networks. We may not have sufficient resources to continue to make these investments and we may not be able to maintain our competitive position. Our competitors may develop products that are superior to our products, develop methods of more efficiently and effectively providing products and services, or adapt more quickly than we do to new technologies or evolving customer requirements. Some of our competitors may have greater financial, marketing and research and development resources than we have. As a result, those competitors may be better able to withstand the effects of periodic economic downturns. In addition, pricing pressures could cause us to lower the prices of some of our products to stay competitive. We may not be able to compete successfully with our existing competitors or with new competitors. If we fail to compete successfully, the failure would have a material adverse effect on our business and results of operations.

Acquisitions have formed a significant part of our growth strategy in the past and are expected to continue to do so. If we are unable to identify suitable acquisition candidates or integrate the businesses we acquire or realize the intended benefits, our growth strategy may not succeed. Acquisitions involve numerous risks, including risks related to integration and undisclosed or underestimated liabilities.

Historically, our business strategy has relied on acquisitions. We expect to derive a significant portion of our growth by acquiring businesses and integrating those businesses into our existing operations. We intend to seek acquisition opportunities both to expand into new markets and to enhance our position in our existing markets. However, our ability to do so will depend on a number of steps, including our ability to:

- identify suitable acquisition candidates;
- negotiate appropriate acquisition terms;
- obtain debt or equity financing that we may need to complete proposed acquisitions;
- complete the proposed acquisitions; and
- integrate the acquired business into our existing operations.

If we fail to achieve any of these steps, our growth strategy may not be successful.

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In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies, services and products of the acquired company, the potential loss of key employees of the acquired company and the diversion of our management s attention from other business concerns. This is the case particularly in the fiscal quarters immediately following the completion of an acquisition because the operations of the acquired business are integrated into the acquiring businesses operations during this period. We cannot be sure that we will accurately anticipate all of the changing demands that any future acquisition may impose on our management, our operational and management information systems and our financial systems.

Once integrated, acquired operations may not achieve levels of revenue, profitability or productivity comparable with those that our existing operations achieve, or may otherwise not perform as we expected.

We may underestimate or fail to discover liabilities relating to a future acquisition during the due diligence investigation and we, as the successor owner, might be responsible for those liabilities. For example, two of our acquired 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. Although our due diligence investigations in connection with these acquisitions uncovered the existence of potential asbestos-related liabilities, the scope of such liabilities were greater than we had originally estimated. Although we seek to minimize the impact of underestimated or potential undiscovered liabilities by structuring acquisitions to minimize liabilities and obtaining indemnities and warranties from the selling party, these methods may not fully protect us from the impact of undiscovered liabilities. Indemnities or warranties are often limited in scope, amount or duration, and may not fully cover the liabilities for which they were intended. The liabilities that are not covered by the limited indemnities or warranties could have a material adverse effect on our business and financial condition.

We may require additional capital to finance our growth. If the terms on which the additional capital is available are unsatisfactory, if the additional capital is not available at all or we are not able to fully access our existing credit facility, we may not be able to pursue our growth strategy.

Our growth strategy will require additional capital investment to complete acquisitions, integrate the completed acquisitions into our existing operations, and to expand into new markets.

We intend to pay for future acquisitions using a combination of cash, capital stock, notes and assumption of indebtedness. To the extent that we do not generate sufficient cash internally to provide the capital we require to fund our growth strategy and future operations, we will require additional debt or equity financing. We cannot be sure that this additional financing will be available or, if available, will be on terms acceptable to us. Further, high volatility in the equity markets and recent decline in our stock price may make it difficult for us to access the equity markets for additional capital at attractive prices, if at all. If we are unable to obtain sufficient additional capital in the future, it will limit our ability to implement our business strategy. Continued issues resulting from the current global financial crisis and economic downturn involving liquidity and capital adequacy affecting lenders could affect our ability to fully access our existing credit facilities. In addition, even if future debt financing is available, it may result in (1) increased interest expense, (2) increased term loan payments, (3) increased leverage, and (4) decreased income available to fund further acquisitions and expansion. It may also limit our ability to withstand competitive pressures and make us more vulnerable to economic downturns. If future equity financing is available, it may dilute the equity interests of our existing stockholders.

A material disruption at any of our manufacturing facilities could adversely affect our ability to generate sales and meet customer demand.

If operations at our manufacturing facilities were to be disrupted as a result of significant equipment failures, natural disasters, power outages, fires, explosions, terrorism, adverse weather conditions, labor disputes or other reasons, our financial performance could be adversely affected as a result of our inability to meet customer demand for our products. Interruptions in production could increase our costs and reduce our sales. Any interruption in production capability could require us to make substantial capital expenditures to remedy the situation, which could negatively affect our profitability and financial condition. We maintain property damage insurance which we believe to be adequate to provide for reconstruction of facilities and equipment, as well as business interruption insurance to mitigate losses resulting from any production interruption or shutdown caused by an insured loss. However, any recovery under our insurance policies may not offset the lost sales or increased costs that may be experienced during the disruption of operations, which could adversely affect our financial performance.

The loss of key management could have a material adverse effect on our ability to run our business.

Because our senior management has been key to our growth and success, we may be adversely affected if we lose any member of our senior management. We are highly dependent on our senior management team, including John Young, our President and Chief Executive Officer, as a result of their extensive experience. The loss of key management or the inability to attract, retain and motivate sufficient numbers of qualified management personnel could have a material adverse effect on us and our business.

Available insurance coverage, the number of future asbestos-related claims and the average settlement value of current and future asbestos-related claims of two of our subsidiaries could be different than we have estimated, which could materially and adversely affect our financial condition, results of operations and cash flow.

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. For purposes of our financial statements, we have estimated the future claims exposure and the amount of insurance available based upon certain assumptions with respect to future claims and liability costs. We estimate the liability costs to be incurred in resolving pending and forecasted claims for the next 15-year period.

Our decision to use a 15-year period is based on our belief that this is the extent of our ability to forecast liability costs. We also estimate the amount of insurance proceeds available for such claims based on the current financial strength of the various insurers, our estimate of the likelihood of payment and applicable current law. We reevaluate these estimates regularly. Although we believe our current estimates are reasonable, a change in the time period used for forecasting our liability costs, the actual number of future claims brought against us, the cost of resolving these claims, the likelihood of payment by, and the solvency of, insurers and the amount of remaining insurance available could be substantially different than our estimates, and future revaluation of our liabilities and insurance recoverables could result in material adjustments to these estimates, any of which could materially and adversely affect our financial condition, results of operations and cash flow. In addition, the company incurs defense costs related to those claims, a portion of which has historically been reimbursed by our insurers. We also incur litigation costs in connection with actions against certain of the subsidiaries insurers relating to insurance coverage. While these costs may be significant, we are unable to predict the amount or duration of such costs. Additionally, we may experience delays in receiving reimbursement from insurers, during which time we may be required to pay cash for settlement or legal defense costs. Any increase in the actual number of future claims brought against us, the defense costs of resolving these claims, the cost of pursuing claims against our insurers, the likelihood and timing of payment by, and the solvency of, insurers and the amount of remaining insurance available, could materially and adversely affect our financial condition, results of operations and cash flow.

Our international operations are subject to the laws and regulations of the United States and many foreign countries. Failure to comply with these laws may affect our ability to conduct business in certain countries and may affect our financial performance.

We are subject to a variety of laws regarding our international operations, including the Foreign Corrupt Practices Act and regulations issued by U.S. Customs and Border Protection, the Bureau of Industry and Security, and the regulations of various foreign governmental agencies. We cannot predict the nature, scope or effect of future regulatory requirements to which our international sales and manufacturing operations might be subject or the manner in which existing laws might be administered or interpreted. Future regulations could limit the countries in which some of our products may be manufactured or sold, or could restrict our access to, and increase the cost of obtaining, products from foreign sources. In addition, actual or alleged violations of these laws could result in enforcement actions and financial penalties that could result in substantial costs.

Our foreign subsidiaries have done and may continue to do business in countries subject to U.S. sanctions and embargoes, including Iran and Syria, and we have limited managerial oversight over those activities. Failure to comply with these sanctions and embargoes may result in enforcement or other regulatory actions.

From time to time, certain of our foreign subsidiaries sell products to companies and entities located in, or controlled by the governments of, certain countries that are or have previously been subject to sanctions and embargoes imposed by the U.S. government and/or the United Nations, such as Iran and Syria. With the exception of the U.S. sanctions against Cuba, the applicable sanctions and embargoes generally do not prohibit our foreign subsidiaries from selling non-U.S.-origin products and services in those countries. However, Colfax Corporation, its U.S. personnel and its domestic subsidiaries, as well as employees of our foreign subsidiaries who are U.S. citizens, are prohibited from participating in, approving or otherwise facilitating any aspect of the business activities in those countries. These constraints may negatively affect the financial or operating performance of such business activities. We cannot be certain that our attempts to comply with U.S. sanction laws and embargoes will be effective, and as a consequence we may face enforcement or other actions if our compliance efforts are not effective. Actual or alleged violations of these laws could result in substantial fines or other sanctions which could result in substantial costs. In addition, Iran and Syria currently are identified by the State Department as state sponsors of terrorism, and may be subject to increasingly restrictive

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sanctions. Because certain of our foreign subsidiaries have contact with and transact business in such countries, including sales to enterprises controlled by agencies of the governments of such countries, our reputation may suffer due to our association with these countries, which may have a material adverse effect on the price of our common stock. Further, certain U.S. states and municipalities have recently enacted legislation regarding investments by pension funds and other retirement systems in companies that have business activities or contacts with countries that have been identified as state sponsors of terrorism and similar legislation may be pending in other states. As a result, pension funds and other retirement systems may be subject to reporting requirements with respect to investments in companies such as ours or may be subject to limits or prohibitions with respect to those investments that may have a material adverse effect on the price of our shares.

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

If we fail to comply with export control regulations, we could be subject to substantial fines or other sanctions.

Some of our products manufactured or assembled in the United States are subject to the U.S. Export Administration Regulations, administered by the U.S. Department of Commerce, Bureau of Industry and Security, which require that we obtain an export license before we can export such products to specified countries. Additionally, some of our products are subject to the International Traffic in Arms Regulations, which restrict the export of certain military or intelligence-related items, technologies and services to non-U.S. persons. Failure to comply with these laws could harm our business by subjecting us to sanctions by the U.S. government, including substantial monetary penalties, denial of export privileges and debarment from U.S. government contracts.

Approximately 42% of our employees are represented by foreign trade unions. If the representation committees responsible for negotiating with these unions on our behalf are unsuccessful in negotiating new and acceptable agreements when the existing agreements with our employees covered by the unions expire, we could experience business disruptions or increased costs.

As of December 31, 2008, we had approximately 2,200 employees worldwide. In certain countries, labor and employment laws are more restrictive than in the U.S. and, in many cases, grant significant job protection to employees, including rights on termination of employment. In Germany, Sweden and the Netherlands, by law, some of our employees are represented by trade unions in these jurisdictions, which subjects us to employment arrangements very similar to collective bargaining agreements. If our employees represented by foreign trade unions were to engage in a strike, work stoppage or other slowdown in the future, we could experience a significant disruption of our operations. Such disruption could interfere with our business operations and could lead to decreased productivity, increased labor costs and lost revenue.

Although we have not experienced any material recent strikes or work stoppages, we cannot offer any assurance that the representation committees that negotiate with the foreign trade unions on our behalf will be successful in negotiating new collective bargaining agreements or other employment arrangements when the current ones expire. Furthermore, future labor negotiations could result in significant increases in our labor costs.

Our manufacturing business is subject to the possibility of product liability lawsuits, which could harm our business.

In addition to the asbestos-related liability claims described above, as the manufacturer of equipment for use in industrial markets, we face an inherent risk of exposure to other product liability claims. Although we maintain quality controls and procedures, we cannot be sure that our products will be free from defects. In addition, some of our products contain components manufactured by third parties, which may also have defects. We maintain insurance coverage for product liability claims. Our insurance policies have limits, however, that may not be sufficient to cover claims made against us. In addition, this insurance may not continue to be available to us at a reasonable cost. With respect to components manufactured by third-party suppliers, the contractual indemnification that we seek from our third-party suppliers may be limited and thus insufficient to cover claims made against us. If our insurance coverage or contractual indemnification is insufficient to satisfy product liability claims made against us, the claims could have an adverse effect on our business and financial condition. Even claims without merit could harm our reputation, reduce demand for our products, cause us to incur substantial legal costs and distract the attention of our management.

As a manufacturer, we are subject to a variety of environmental and health and safety laws for which compliance could be costly. In addition, if we fail to comply with such laws, we could incur liability that could result in penalties and costs to correct any non-compliance.

Our business is subject to international, federal, state and local environmental and safety laws and regulations, including laws and regulations governing emissions of: regulated air pollutants; discharges of wastewater and storm water; storage and handling of raw materials; generation, storage, transportation and disposal of regulated wastes; and worker safety. These requirements impose on our business certain responsibilities, including the obligation to obtain and maintain various environmental permits. If we were to fail to comply with these requirements or fail to obtain or maintain a required permit, we could be subject to penalties and be required to undertake corrective action measures to achieve compliance. In addition, if our noncompliance with such regulations were to result in a release of hazardous materials to the environment, such as soil or groundwater, we could be required to remediate such contamination, which could be costly. Moreover, noncompliance could subject us to private claims for property damage or personal injury based on exposure to hazardous materials or unsafe working conditions. Changes in applicable requirements or stricter interpretation of existing requirements may result in costly compliance requirements or otherwise subject us to future liabilities.

As the present or former owner or operator of real property, or generator of waste, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination.

Under various federal, state and local laws, regulations and ordinances, and, in some instances, international laws, relating to the protection of the environment, a current or former owner or operator of real property may be liable for the cost to remove or remediate contamination on, under, or released from such property and for any damage to natural resources resulting from such contamination. Similarly, a generator of waste can be held responsible for contamination resulting from the treatment or disposal of such waste at any off-site location (such as a landfill), regardless of whether the generator arranged for the treatment or disposal of the waste in compliance with applicable laws. Costs associated with liability for removal or remediation of contamination or damage to natural resources could be substantial and liability under these laws may attach without regard to whether the responsible party knew of, or was responsible for, the presence of the contaminants. In addition, the liability may be joint and several. Moreover, the presence of contamination or the failure to remediate contamination at our properties, or properties for which we are deemed responsible, may expose us to liability for property damage or personal injury, or materially adversely affect our ability to sell our real property interests or to borrow using the real property as collateral. We cannot be sure that we will not be subject to environmental liabilities in the future as a result of historic or current operations that have resulted or will result in contamination.

Failure to maintain and protect our trademarks, trade names and technology may affect our operations and financial performance.

The market for many of our products is, in part, dependent upon the goodwill engendered by our trademarks and trade names. Trademark protection is therefore material to a portion of our business. The failure to protect our trademarks and trade names may have a material adverse effect on our business, financial condition and operating results. Litigation may be required to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. Any action we take to protect our intellectual property rights could be costly and could absorb significant management time and attention. As a result of any such litigation, we could lose any proprietary rights we have. In addition, it is possible that others will independently develop technology that will compete with our patented or unpatented technology. The development of new technologies by competitors that may compete with our technologies could reduce demand for our products and affect our financial performance.

If we are unable to complete our assessment as to the adequacy of our internal controls over financial reporting as of December 31, 2009 as required by Section 404 of the Sarbanes-Oxley Act of 2002, or if material weaknesses are identified and reported, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock and make it more difficult for us to raise capital in the future.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include in their annual reports on Form 10-K a report by management on the company s internal controls over financial reporting, including management s assessment of the effectiveness of the company s internal controls over financial reporting as of the company s fiscal year end. While we will expend significant resources in developing the necessary documentation and testing procedures, 2009 will be the first year for which we must complete the assessment and undergo the attestation process required by Section 404 and there is a risk that we may not be able to comply with all of its requirements. If we are not able to comply with the requirements of Section 404 in a timely manner, our independent registered public accounting firm may issue a qualified opinion on the effectiveness of our internal controls. It is also possible that material weaknesses in our internal controls could be found. If we are unable to remediate any material weaknesses by December 31, 2009, our independent registered public accounting firm would be required to issue an adverse opinion on our internal controls. If our independent registered public accounting firm renders an adverse opinion due to material

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weaknesses in our internal controls, then investors may lose confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline and make it more difficult for us to raise capital in the future.

Some of our stockholders may exert significant influence over us.

Currently, two of our stockholders, Mitchell P. Rales and Steven M. Rales, together, and through an entity wholly owned by them, hold approximately 42% of our outstanding common stock. The level of ownership of these stockholders, and the service of Mitchell Rales as chairman of our board of directors, enables them to exert significant influence over all matters involving us, including matters presented to our stockholders for approval, such as election and removal of our directors and change of control transactions. This concentration of ownership and voting power may also have the effect of delaying or preventing a change in control of our company and could prevent stockholders from receiving a premium over the market price if a change in control is proposed. The interests of these persons may not coincide with the interests of the other holders of our common stock with respect to our operations or strategy.

The market price of our common stock may experience a high level of volatility.

The market price for our common stock has experienced a high level of volatility and may continue to do so in the future. During the period from our initial public offering (IPO) to December 31, 2008, our common stock traded between $28.35 and $5.58 per share. At any given time, you may not be able to sell your shares at a price that you think is acceptable. The market liquidity for our stock is relatively low. As of December 31, 2008, we had 43,211,026 shares of common stock outstanding. The average daily trading volume in our common stock during the period from July 1, 2008 to December 31, 2008 was approximately 400,000 shares. Although a more active trading market may develop in the future, the limited market liquidity for our stock may affect your ability to sell at a price that is satisfactory to you. Stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of a particular company. These broad fluctuations may adversely affect the trading price of our common stock, regardless of our operating performance.

Provisions in our charter documents and Delaware law may delay or prevent an acquisition of our company, which could decrease the value of your shares.

Our amended and restated certificate of incorporation, amended and restated bylaws, and Delaware law contain provisions that may make it difficult for a third-party to acquire us without the consent of our board of directors. These provisions include prohibiting stockholders from taking action by written consent, prohibiting special meetings of stockholders called by stockholders and prohibiting stockholder nominations and approvals without complying with specific advance notice requirements. In addition, our board of directors has the right to issue preferred stock without stockholder approval, which our board of directors could use to effect a rights plan or poison pill that could dilute the stock ownership of a potential hostile acquirer and may have the effect of delaying, discouraging or preventing an acquisition of our company. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding voting stock. Although Mitchell Rales and Steven Rales, both individually and in the aggregate, hold more than 15% of our outstanding voting stock, this provision of Delaware law does not apply to them.

There may be limitations on our ability to fully utilize our net operating loss and minimum tax credit carryforwards in future periods.

As of December 31, 2008, we had net operating loss (NOLs) and minimum tax credit (MTCs) carryforwards of approximately $110.5 million and $3.9 million, respectively. The NOLs, if not utilized to offset tax income in future periods, will expire at various dates beginning in 2021 while the MTCs do not expire. We believe we experienced an ownership change within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, as a result of our May 2008 IPO. Our ability to use our NOLs existing at the time of the ownership change to offset any taxable income generated in taxable periods after the ownership change is subject to an annual limitation. The amount of NOLs that we may utilize on an annual basis under Section 382 would generally be equal to the product of the value of our outstanding stock immediately prior to the ownership change (less certain capital contributions during the preceding two years) and the long term tax exempt rate which was 4.71% for May 2008.

Similarly, the amount of any MTCs that may be carried forward to a post ownership change tax year is limited to the amount of tax liability attributed to taxable income that does not exceed the aforementioned Section 382 limitation computation.

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Our results of operations could vary as a result of the methods, estimates and judgments we use in applying our accounting policies.

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our results of operations (see Critical Accounting Policies and Estimates in Part II, Item 7 of this Form 10-K). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

Any impairment in the value of our intangible assets, including goodwill, would negatively affect our operating results and total capitalization.

Our total assets reflect substantial intangible assets, primarily goodwill. The goodwill results from our acquisitions, representing the excess of cost over the fair value of the net assets we have acquired. We assess at least annually whether there has been impairment in the value of our intangible assets. If future operating performance at one or more of our business units were to fall significantly below current levels, if competing or alternative technologies emerge, or if market conditions for businesses acquired declines, we could incur, under current applicable accounting rules, a non-cash charge to operating earnings for goodwill impairment. Any determination requiring the write-off of a significant portion of unamortized intangible assets would negatively affect our results of operations and total capitalization, the effect of which could be material.

Our defined benefit pension plans are subject to financial market risks that could adversely affect our operating results, financial condition and cash flow.

Our defined benefit pension plan obligations are affected by changes in market interest rates and the majority of plan assets are invested in publicly traded debt and equity securities, which are affected by market risks. Significant changes in market interest rates, decreases in the fair value of plan assets and investment losses or lack of expected investment gains on plan assets may adversely impact our future operating results, financial condition and cash flow.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

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ITEM 2. PROPERTIES

We have 16 principal production facilities in seven countries. We have seven in the United States, three in Germany, one in France, one in the Netherlands, one in Sweden, one in China and two in India. The following table lists our primary facilities at December 31, 2008, indicating the location, square footage, whether the facilities are owned or leased, and principal use.

Location	Sq. Footage	Owned/ Leased	Principal Use
Richmond, Virginia	10,200	Leased	Corporate headquarters
Hamilton, New Jersey	2,200	Leased	Subsidiary headquarters
Columbia, Kentucky	75,000	Owned	Production
Warren, Massachusetts	147,000	Owned	Production
Monroe, North Carolina	170,000	Owned	Production
Sanford, North Carolina	32,000	Owned	Production
Aberdeen, North Carolina (1)	20,000	Owned	Production
Houston, Texas	25,000	Leased	Production
Portland, Maine	61,000	Leased	Production
Tours, France	33,000	Leased	Production
Bottrop, Germany	55,000	Owned	Production
Gottmadingen, Germany	38,000	Leased	Production
Radolfzell, Germany	350,000	Owned	Production
Utrecht, Netherlands	50,000	Owned	Production
Stockholm, Sweden	130,000	Owned	Production
Daman, India	32,000	Owned	Production
Vapi, India	16,000	Leased	Production
Wuxi, China	60,000	Leased	Production

(1) Facility is expected to be closed and its operations relocated to the Sanford, North Carolina facility in March 2009.

ITEM 3. LEGAL PROCEEDINGS

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

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

On June 3, 1997, one of our subsidiaries was served with a complaint in a case brought by Litton Industries, Inc. in the Superior Court of New Jersey which alleges damages in excess of $10.0 million incurred as a result of losses under a government contract bid transferred in connection with the sale of its former Electro-Optical Systems business. In the third quarter of 2004 this case was tried and the jury rendered a verdict of $2.1 million for the plaintiffs. Plaintiffs have argued that they are entitled to a refund of their attorney s fees and costs of trial as a matter of law and contract. The subsidiary believes it is not obligated to pay these costs. In November 2006, the Court entered an Amended Final Judgment in favor of the plaintiffs in the amount of $8.9 million, including prejudgment interest. This amount plus accrued interest is recorded in Other liabilities in our consolidated balance sheets. The judgment is secured by a bond as well as a letter of credit. Both the subsidiary and the plaintiffs appealed. On January 28, 2008, the

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Appellate Division of the New Jersey Superior Court affirmed the total award and ordered a new trial on certain portions of the plaintiffs claim. The subsidiary and the plaintiffs each petitioned for certification of the judgment which was granted by the Supreme Court of New Jersey on May 15, 2008 and a hearing with oral argument occurred on December 2, 2008. The Supreme Court will issue an opinion at its convenience. The subsidiary intends to continue to defend this matter vigorously.

In April 1999 the Company s Imo Industries subsidiary resolved through a settlement the matter of Young v. Imo Industries Inc. that was pending in the United States District Court for the District of Massachusetts. This matter had been brought on behalf of a class of retirees of one of the Subsidiary s divisions relating to retiree health care obligations. On June 15, 2005, a Motion was filed seeking an Order that certain of the features of the plan as implemented by the Company were in violation of the Settlement Agreement. On December 16, 2008, the parties executed a Memorandum of Understanding (MOU), memorializing the principal terms of a new settlement agreement that will resolve the litigation in its entirety. As a result of the parties efforts in this regard, the case has been removed from the trial calendar, pending the filing of a final Settlement Agreement with the court. The Subsidiary is actively negotiating the Amended and Restated Settlement Agreement, which will supersede and replace the Stipulation and Agreement of Settlement and Dismissal of Claims entered into by the parties on November 30, 1998. At December 31, 2008, the Company recorded an accumulated post retirement benefit obligation of $2.4 million to other comprehensive income as its best estimate for the cost of resolution of this matter.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the names, ages, positions and experience of our executive officers. All of our executive officers hold office at the pleasure of our Board of Directors.

Name	Age	Position
John A. Young	43	President and Chief Executive Officer and Director
G. Scott Faison	47	Senior Vice President, Finance and Chief Financial Officer
Joseph B. Niemann	47	Senior Vice President, Marketing and Strategic Planning
Thomas M. O Brien	58	Senior Vice President, General Counsel and Secretary
Steven W. Weidenmuller	45	Senior Vice President, Human Resources
Mario E. DiDomenico	57	Senior Vice President, General Manager Engineered Solutions
Michael K. Dwyer	51	Senior Vice President, General Manager Asia Pacific
Dr. Michael Matros	43	Senior Vice President, General Manager Allweiler
William E. Roller	46	Senior Vice President, General Manager Americas

John A. Young is the President and Chief Executive Officer and a Director of our company. Prior to becoming President in 2000, Mr. Young was Vice President, Chief Financial Officer and Treasurer of our company since its founding in 1995.

G. Scott Faison became the Senior Vice President, Finance and Chief Financial Officer in January of 2005. He has served as Corporate Controller and Assistant Treasurer since joining us in November 1997.

Joseph B. Niemann joined us in 2006 as Senior Vice President of Marketing and Strategic Planning. Prior to joining our company, Mr. Niemann was Vice President, Marketing & eBusiness of Emerson Climate Technologies, a subsidiary of Emerson Electric Company, where he was employed from 1990 to 2005.

Thomas M. O Brien has served as our Senior Vice President, General Counsel and Secretary since January 1998. Mr. O Brien served as Assistant General Counsel at Imo from 1995-1998. He has been a member of the legal department at Imo since 1985.

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Steven W. Weidenmuller joined us in 2002 as Senior Vice President, Human Resources. Prior to joining our company, Mr. Weidenmuller was Vice President of Human Resources of Tropicana International, a subsidiary of PepsiCo, Inc., where he was employed from 1997 to 2002.

Mario E. DiDomenico joined our company in 1998 with the acquisition of Imo. Since that time he has served as the Manager of Operations for Warren Pump, Vice President 2 Screw Pumps and subsequently as Senior Vice President, General Manager Engineered Solutions, which also includes Portland Valve and Fairmount following the acquisitions of those businesses.

Michael K. Dwyer joined our company in 1998 as Vice President, Colfax Business System and Global Sourcing. In 2004, Mr. Dwyer became Senior Vice President, General Manager Asia Pacific.

Dr. Michael Matros joined Allweiler in 1996 as a project manager in Research and Development. From 1996 until 2006, Dr. Matros has held several positions at Allweiler with increasing responsibilities, including Director of Research and Development and the Plant Manager of our Allweiler facility in Radolfzell, Germany. In April 2006, Dr. Matros was appointed to his current position as Senior Vice President, General Manager Allweiler. In November 2006, Dr. Matros was appointed as a member of the management board at our German subsidiary, Allweiler AG.

William E. Roller has served as our Senior Vice President, General Manager Americas since June 1999. Subsequently, Mr. Roller added to his responsibilities the role of General Manager of both Zenith and LSC following the acquisitions of those businesses.

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading on the New York Stock Exchange under the symbol CFX on May 8, 2008. As of February 12, 2009, there were approximately 10,500 holders of record of our common stock. The high and low sales prices per share of our common stock, as reported on the New York Stock Exchange, for the fiscal periods presented are as follows:

	2008	
	High	**Low**
First quarter	N/A	N/A
Second quarter	$ 25.76	$ 20.01
Third quarter	$ 28.35	$ 14.73
Fourth quarter	$ 18.16	$ 5.58

We have not paid any dividends on our common stock since inception, and we do not anticipate the declaration or payment of dividends at any time in the foreseeable future. Our credit agreement limits the amount of cash dividends and common stock repurchases the Company may make to a total of $10 million annually.

Securities Authorized for Issuance Under Equity Compensation Plans

Information responsive to this item is incorporated by reference to such information included in our Proxy Statement for our 2009 annual meeting to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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Performance Graph

Issuer Purchase of Equity Securities

On November 4, 2008, the Company s board of directors authorized the repurchase of up to $20 million (up to $10 million per year in 2008 and 2009) of the Company s common stock on the open market or in privately negotiated transactions. The repurchase program is also being conducted pursuant to SEC Rule 10b5-1. The timing and amount of any shares repurchased will be determined by the Share Repurchase Committee, constituting three members of the Company s board of directors, based on its evaluation of market conditions and other factors. The Company expects to fund any further repurchases using the Company s available cash balances.

The following table present certain information with respect to our common stock repurchases during the fourth quarter of 2008.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
9/27/08 10/24/08	N/A	N/A	N/A	N/A
10/25/08 11/21/08	601,200	$ 7.05	601,200	$ 15,763,610(1)
11/22/08 12/31/08	193,800	$ 7.59	193,800	$ 10,000,000(2)
Total	795,000	$ 7.18(3)	795,000	$ 10,000,000(2)

(1) Represents $5,763,610 available for repurchase in 2008 plus the $10 million authorized for repurchase in 2009.
(2) Represents the $10 million authorized for repurchase in 2009.
(3) Represents the weighted-average price paid per share during the fourth quarter of 2008.

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ITEM 6. SELECTED FINANCIAL DATA
(in thousands, except per share information)

	Year ended December 31, 2008	2007	2006	2005	2004
Statement of Operations Data:					
Net sales	$ 604,854	$ 506,305	$ 393,604	$ 345,478	$ 309,653
Cost of sales	387,667	330,714	256,806	222,353	197,907
Gross profit	217,187	175,591	136,798	123,125	111,746
Initial public offering-related costs	57,017				
Selling, general and administrative expenses	125,234	98,500	80,103	74,594	77,434
Research and development expenses	5,856	4,162	3,336	2,855	3,175
Asbestos liability and defense (income) costs	(4,771)	(63,978)	21,783	14,272	28,638
Asbestos coverage litigation expenses	17,162	13,632	12,033	3,840	774
Operating income	16,689	123,275	19,543	27,564	1,725
Interest expense	11,822	19,246	14,186	9,026	6,918
Provision (benefit) for income taxes	5,438	39,147	3,866	6,907	(6,010)
(Loss) income from continuing operations	(571)	64,882	1,491	11,631	817
Net (loss) income [1]	(571)	64,882	94	12,247	57,306
(Loss) earnings per share from continuing operations basic and diluted	$ (0.11)	$ 1.79	$ 0.07	$ (0.09)	$ (0.62)

	December 31, 2008	2007	2006	2005	2004
Balance Sheet Data:					
Cash and cash equivalents	$ 28,762	$ 48,093	$ 7,608	$ 7,821	$ 100,223
Goodwill and intangibles, net	179,046	185,353	154,231	149,793	152,681
Asbestos insurance asset, including current portion	304,015	305,228	297,106	261,941	193,386
Total assets	913,076	896,540	797,226	700,574	707,881
Asbestos liability, including current portion	357,258	376,233	388,920	338,535	266,668
Total debt, including current portion [2]	97,121	206,493	188,720	158,454	125,051

(1) Includes net (loss) income from discontinued operations of $(1.4) million, $0.6 million, and $56.5 million in the years ended December 31, 2006, 2005 and 2004, respectively.

(2) See Note 12 to our Consolidated Financial Statements for information regarding the refinancing of the Company s debt in conjunction with the IPO in May 2008.

We completed the acquisitions of Fairmount and LSC in 2007. In 2005, we completed the acquisition of Tushaco and in 2004, we completed the acquisitions of Portland Valve and Zenith. See Item 1. Business and Note 5 to our Consolidated Financial Statements for further information.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of the Company s financial statements with a narrative from the perspective of Company management. The Company s MD&A is divided into four main sections:

Overview

Results of Operations

Liquidity and Capital Resources

Critical Accounting Policies

The following discussion of our financial condition and results of operations should be read together with Selected Financial and Data, Risk Factors and the financial statements and related notes included elsewhere in this Form 10-K. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ materially from the results referred to in the forward-looking statements, see Special Note Regarding Forward-Looking Statements.

Overview

Colfax Corporation 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 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 have a global manufacturing footprint, with production facilities in Europe, North America and Asia, as well as worldwide sales and distribution channels.

We employ a comprehensive set of tools that we refer to as the Colfax Business System, or 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. Modeled on the Danaher Business System, CBS focuses on conducting root-cause analysis, developing process improvements and implementing sustainable systems. Our approach addresses the entire business, not just manufacturing operations.

We currently serve markets that have a need for highly engineered, critical fluid handling solutions and are global in scope. Our strategic markets include:

Strategic Markets	Applications
Commercial Marine	Fuel oil transfer; oil transport; water and wastewater handling
Oil and Gas	Crude oil gathering; pipeline services; unloading and loading; rotating equipment lubrication; lube oil purification
Power Generation	Fuel unloading, transfer, burner and injection; rotating equipment lubrication
Global Navy	Fuel oil transfer; oil transport; water and wastewater handling; firefighting; fluid control

General Industrial	Machinery lubrication; hydraulic elevators; chemical processing; pulp and paper processing; food and beverage processing

We serve a global customer base across multiple markets through a combination of direct sales and marketing associates and third-party distribution channels. Our customer base is highly diversified and includes commercial, industrial and government customers.

Our business began with an initial investment by our founders in 1995 with the intention to acquire, manage and create a world-class industrial manufacturing company. We seek to acquire businesses with leading market positions and brands that exhibit strong cash flow generation potential. With our management expertise and the introduction of CBS into our acquired businesses, we pursue growth in revenues and improvements in operating margins.

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Outlook

We believe that we are well positioned to grow our business organically by enhancing our product offerings and expanding our customer base in our strategic markets. The recent economic uncertainty has not had a significant impact on our financial position, results of operations or liquidity as of the date of the filing of this Form 10-K; however, if current economic conditions continue our business could be negatively effected. We continue to monitor the financial markets and general global economic conditions and presently expect the following market conditions in 2009:

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

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

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

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

- In the general industrial market, we expect demand to soften in the chemical, building products, diesel engine and distribution portions of the general industrial market, primarily in Europe and North America.

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 plan to open a Middle East sales and engineering center in Bahrain during 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 year ended December 31, 2008, aftermarket sales and services represented approximately 24% 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.

Results of Operations

Key Performance Measures

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

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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 orders for products or services from our customers, net of cancellations. Order backlog consists of unfilled orders.

Key Risk Factors and Items Affecting the Comparability of Our Reported Results

Our growth and financial performance are driven by many factors, principally our ability to serve increasingly global markets, fluctuations in the relationship of foreign currencies to the U.S. dollar, the general economic conditions within our five strategic markets, the global economy and capital spending levels, the availability of capital, our estimates concerning the availability of insurance proceeds to cover asbestos litigation expenses and liabilities, the amounts of asbestos litigation expenses and liabilities, our ability to pass through cost increases through pricing, the impact of sales mix, and our ability to continue to grow through acquisitions. These key factors have impacted our results of operations in the past and are likely to affect them in the future.

Global Operations

Our products and services are available worldwide. The manner in which our products and services are sold differs by region. Most of our sales in non-U.S. markets are made by subsidiaries located outside the United States, though we also sell into non-U.S. markets through various representatives and distributors and directly from the U.S. In countries with low sales volumes, we generally sell through representatives and distributors. For the year ended December 31, 2008, approximately 78% of our sales were shipped to locations outside of the U.S. Accordingly, we are affected by levels of industrial activity and economic and political factors in countries throughout the world. Our ability to grow and our financial performance will be affected by our ability to address a variety of challenges and opportunities that are a consequence of our global operations, including efficiently utilizing our global sales, manufacturing and distribution capabilities, the expansion of market opportunities in Asia, successfully completing global strategic acquisitions, and engineering innovative new product applications for end users in a variety of geographic markets. However, we believe that our geographic, end market and product diversification may limit the impact that any one country or economy could have on our consolidated results.

Foreign Currency Fluctuations

A significant portion of our sales, approximately 69% for the year ended December 31, 2008, are denominated in currencies other than the U.S. dollar, especially the Euro and the Swedish Krona. Because much of our manufacturing and employee costs are outside the U.S., a significant portion of our costs are also denominated in currencies other than the U.S. dollar. Changes in foreign exchange rates can impact our results and is quantified when significant in our discussion of our operations.

Economic Conditions in Strategic Markets

Our organic growth and profitability strategy focuses on five strategic markets: commercial marine, oil and gas, power generation, global navy and general industrial. Demand for our products depends on the level of new capital investment and planned maintenance by our customers. The level of capital expenditures depends, in turn, on the general economic conditions within that market as well as access to capital at reasonable cost. While demand within each of these strategic markets can be cyclical, the diversity of these markets may limit the impact of a downturn in any one of these markets on our consolidated results.

Pricing

We believe our customers place a premium on quality, reliability, availability, design and application engineering support. Our highly engineered fluid handling products typically have higher margins than products with commodity-like qualities. However, we are sensitive to price movements in our raw materials supply base. Our largest material purchases are for components and raw materials consisting of steel, iron, copper and aluminum. Historically, we have been generally successful in passing raw material price increases on to our customers. While we seek to take actions to manage this risk, including commodity hedging where appropriate, such increased costs may adversely impact earnings.

Sales and Cost Mix

Our profit margins vary in relation to the relative mix of many factors, including the type of product, the geographic location in which the product is manufactured, the end market for which the product is designed, and the percentage of total revenue represented by aftermarket sales and services. Aftermarket business, including spare parts and other value added services, is generally a higher margin business and is a significant component of our profitability.

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Strategic Acquisitions

We complement our organic growth with strategic acquisitions. Acquisitions can significantly affect our reported results and can complicate period to period comparisons of results. As a consequence, we report our sales growth between periods both from existing and acquired businesses. We intend to continue to pursue acquisitions of complementary businesses that will broaden our product portfolio, expand our geographic footprint or enhance our position within our strategic markets.

On January 31, 2007, we completed the acquisition of Lubrication Systems Company of Texas (LSC), a manufacturer of fluid handling systems, including oil mist lubrication and oil purification systems. LSC strengthens our presence in the oil and gas end-market, particularly in the downstream refinery segment, broadens our overall lubrication portfolio, and presents the opportunity to expand its product application to other markets.

On November 29, 2007, we acquired Fairmount Automation, Inc. (Fairmount), an original equipment manufacturer of mission critical programmable automation controllers in fluid handling applications primarily for the U.S. Navy. In addition to strengthening our existing position with the U.S. Navy, we intend to leverage Fairmount s experienced engineering talent and technology expertise to develop a portfolio of fluid handling solutions with diagnostic and prognostic capabilities for industrial applications.

IPO-related Costs

Results for the year ended December 31, 2008 include $57.0 million of nonrecurring costs associated with our IPO during the second quarter. This amount includes $10.0 million of share-based compensation and $27.8 million of special cash bonuses paid under previously adopted executive compensation plans as well as $2.8 million of employer payroll taxes and other related costs. It also includes $11.8 million to reimburse the selling stockholders for the underwriting discount on the shares sold by them as well as the write-off of $4.6 million of deferred loan costs associated with the early termination of a credit facility.

Legacy Legal Adjustment

Selling, general and administrative expenses for the year ended December 31, 2008 include a $4.1 million increase to legal reserves in the second quarter related to non-asbestos litigation which arose from the sale and subsequent repair of a product by a division of a subsidiary that was divested prior to our acquisition of the subsidiary. This legacy legal case was settled during the third quarter of 2008.

Asbestos-related (Income) Expense

Our financial results have been, and will likely in the future be, affected by our actual and estimated asbestos liabilities and the availability of insurance to cover these liabilities and defense costs related to asbestos personal injury litigation against two of our subsidiaries, as well as costs arising from our legal action against our insurers. Assessing asbestos liabilities and insurance assets requires judgments concerning matters such as the uncertainty of litigation, anticipated outcome of settlements, the number and cost of pending and future claims, the outcome of legal action against our insurance carriers and their continued solvency. For a further discussion of these estimates and how they may affect our future results, see Critical Accounting Estimates Asbestos Liabilities and Insurance Assets.

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

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

	Year ended December 31,		
(Amounts in millions)	**2008**	**2007**	**2006**
Asbestos liability and defense (income) costs	$ (4.8)	$ (63.9)	$ 21.8
Asbestos coverage litigation expenses	17.2	13.6	12.0

Asbestos-related expense (income)	$ 12.4	$ (50.3)	$ 33.8

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Asbestos liability and defense income was $4.8 million for the year ended December 31, 2008 compared to $63.9 million for the year ended December 31, 2007. The decrease in asbestos liability and defense income relates primarily to income recognized in the year ended December 31, 2007 from revaluing our insurance asset from an expected recovery percentage of 75% to 87.5% and from recording a receivable from insurers for past costs paid by us. The revaluation of the insurance asset in 2007 resulted from a series of favorable court rulings which determined insurance allocation methodology, interpreted policy provisions related to deductibles and number of occurrences, and that New Jersey State law applied.

Legal costs related to the subsidiaries action against their asbestos insurers were $17.2 million for the year ended December 31, 2008 compared to $13.6 million for the year ended December 31, 2007. The increase in legal cost for the year ended December 31, 2008 relates primarily to the cost of a series of hearings in the fourth quarter in preparation for trial by one of our subsidiaries against a number of its insurers and former parent. The trial is expected to commence in the first half of 2009.

Asbestos-related (income) expense for the year ended December 31, 2007 was $(50.3) million compared to $33.8 million for the year ended December 31, 2006, an increase in income of $84.1 million. This increase resulted primarily from revaluation of the insurance asset and from recording a receivable due from our insurers for past costs paid by us, offset to a small degree by the increased cost of litigation against those insurers, as well as an $8.5 million gain related to cash settlements received from certain insurers related to insurance policies which are not included in our 15 year estimate of asbestos-related liability cost. More specifically, the insurance asset for one of our subsidiaries was increased from 75% to 87.5% of the expected liability based upon a series of court rulings which determined New Jersey state law, allocation methodology, and the interpretation of certain policy provisions related to deductibles and the number of occurrences.

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.

Sales and Orders

Our sales growth is affected by many factors including but not limited to acquisitions, fluctuating foreign exchange rates, and growth in our existing businesses. To facilitate the comparison between reporting periods, we disclose the impact of each of these three factors. 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. The impact of foreign currency translation is the difference between sales from existing businesses valued at current year foreign exchange rates and the same sales valued at prior year foreign exchange rates. Sales growth from existing businesses excludes both the impact of acquisitions and foreign exchange rate fluctuations, thus providing a measure of growth due to factors such as price, mix and volume.

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Orders and order backlog are highly indicative of our future revenue and thus key measures of anticipated performance. Orders consist of orders for products or services from our customers, net of cancellations. Order backlog consists of unfilled orders. The components of order growth are presented on the same basis as sales growth. The following tables present components of our sales and order growth, as well as, sales by fluid handling product for the periods indicated:

	Sales		Orders		Backlog at Period End	
(Amounts in millions)	**$**	**%**	**$**	**%**	**$**	**%**
Year ended December 31, 2006	**$ 393.6**		**$ 442.3**		**$ 179.3**	
Components of Growth:						
Existing businesses	53.3	13.5%	77.7	17.6%	84.7	47.2%
Acquisitions	31.3	8.0%	27.2	6.1%	5.3	3.0%
Foreign currency translation	28.1	7.1%	34.3	7.8%	23.5	13.1%
Total growth	112.7	28.6%	139.2	31.5%	113.5	63.3%
Year ended December 31, 2007	**$ 506.3**		**$ 581.5**		**$ 292.8**	
Components of Growth:						
Existing businesses	70.2	13.9%	40.9	7.0%	43.8	15.0%
Acquisitions	5.5	1.1%	11.7	2.0%	15.2	5.2%
Foreign currency translation	22.9	4.5%	35.1	6.1%	(14.5)	(5.0)%
Total growth	98.6	19.5%	87.7	15.1%	44.5	15.2%
Year ended December 31, 2008	**$ 604.9**		**$ 669.2**		**$ 337.3**	

	Year ended December 31,		
(Amounts in millions)	**2008**	**2007**	**2006**
Net Sales by Product:			
Pumps, including aftermarket parts and service	$ 533.9	$ 441.7	$ 360.0
Systems, including installation service	54.0	48.4	16.1
Valves	10.0	9.5	11.3
Other	7.0	6.7	6.2
Total net sales	$ 604.9	$ 506.3	$ 393.6

As detailed above, sales growth from existing business increased 13.9% for the year ended December 31, 2008 over the year ended December 31, 2007. This increase was primarily attributable to increased volume and demand in the power generation, commercial marine, and general industrial end markets. Acquisition growth of 1.1% for the year was due to the acquisitions of LSC on January 31, 2007 and Fairmount on November 29, 2007. Foreign currency translation increased sales and orders by 4.5% and 6.1%, respectively. These increases were primarily due to the weakening of the U.S. dollar against the Euro throughout most of 2008. During the fourth quarter of 2008, the U.S. dollar appreciated sharply against both the Euro and the Swedish Krona, which had a negative effect on our sales and order growth.

Order growth from existing businesses was strong in most of our strategic end markets (most notably in the oil and gas and global navy end markets), up 7.0% in 2008. Commercial marine orders decreased approximately 2% primarily due to cancellations of approximately $15 million. Our backlog of orders at December 31, 2008 remains strong at $337.3 million compared to $292.8 million at December 31, 2007. During 2008, backlog from existing businesses increased $43.8 million or 15.0%, on a currency adjusted basis.

Sales for the year ended December 31, 2007, increased by $112.7 million, or 28.6% over the year ended December 31, 2006. Of this growth, sales from existing businesses contributed 13.5%, the acquisition of LSC on January 31, 2007 and Fairmount on November 29, 2007 contributed 8.0%, and currency translation accounted for 7.1%. The currency translation amount was due primarily to the weakening of the U.S. dollar against the Euro during the year ended December 31, 2007. Sales growth from existing businesses was primarily attributable to increased volume and demand in the commercial marine and oil and gas end markets. By product, pump sales increased $81.7 million, or 22.7%, during the year ended December 31, 2007. System sales grew $32.3 million due primarily to the acquisition of LSC.

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Orders for the year ended December 31, 2007, of $581.5 million increased $139.2 million, or 31.5%, over the year ended December 31, 2006. Backlog of $292.8 million at December 31, 2007 increased $113.5 million, or 63.3%, from $179.3 million at December 31, 2006. Order growth from existing businesses was primarily attributable to strong growth in our strategic end markets, most notably the oil and gas, commercial marine and power generation markets.

Gross Profit

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

	Year ended December 31,		
(Amounts in millions)	**2008**	**2007**	**2006**
Gross profit	$ 217.2	$ 175.6	$ 136.8
Gross profit margin	35.9%	34.7%	34.8%

Gross profit of $217.2 million for the year ended December 31, 2008 increased $41.6 million, or 23.7%, from $175.6 million in 2007. Of the $41.6 million increase, $31.6 million was attributable to growth from existing businesses, $2.4 million was due to the acquisitions of LSC on January 31, 2007 and Fairmount on November 29, 2007 and $7.6 million was due to the positive impact of foreign exchange rates. Gross profit margin increased to 35.9% for the year ended December 31, 2008 from 34.7% for the year ended December 31, 2007. The margin improvement for the year ended December 31, 2008 was primarily driven by favorable pricing and cost control in the commercial marine and oil and gas markets.

Gross profit of $175.6 million for the year ended December 31, 2007 increased $38.8 million, or 28.4%, from $136.8 million in 2006. Of the $38.8 million increase, $16.6 million was attributable to growth from existing businesses, $13.2 million was due to the acquisition of LSC on January 31, 2007 and Fairmount on November 29, 2007 and $9.0 million was due to the positive impact of foreign exchange rates. Gross profit margin was 34.7% for the year ended December 31, 2007 compared to 34.8% for the year ended December 31, 2006.

Selling, General and Administrative Expenses

The following table presents our selling, general and administrative (SG&A) expenses for the periods indicated:

	Year ended December 31,		
(Amounts in millions)	**2008**	**2007**	**2006**
SG&A expenses	$ 125.2	$ 98.5	$ 80.1
SG&A expenses as a percentage of sales	20.7%	19.5%	20.4%

Selling, general and administrative expenses increased $26.7 million to $125.2 million for the year ended December 31, 2008 from $98.5 million for the year ended December 31, 2007. The increase was primarily related to $3.8 million negative impact of foreign exchange rates, $4.1 million reserve increase for a legacy legal matter, $4.2 million for audit and professional fees and other costs associated with becoming a public company, and $2.1 million from the acquisitions of Fairmount and LSC. The remaining increase was primarily due to higher selling expenses, insurance proceeds recognized in the prior year period of $2.2 million related to a product liability matter, a gain recognized in the prior year period of $1.1 million from the sale of investment securities, and $0.7 million of unrealized losses on raw material futures and foreign currency contracts for which we did not elect hedge accounting.

Selling, general and administrative expenses increased $18.4 million to $98.5 million for the year ended December 31, 2007 compared to $80.1 million for the year ended December 31, 2006. Of the $18.4 million increase, $7.2 million was due to the acquisitions of LSC and Fairmount, and $4.8 million was due to the negative impact of foreign exchange rates. The remaining increase was primarily due to increased variable selling expenses of approximately $8.9 million in 2007 and the recognition of a one-time $9.1 million gain on the settlement of other post-employment benefits during 2006, offset by legacy legal expenses of $8.3 million incurred during 2006.

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Operating Income

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

(Amounts in millions)	Year ended December 31, 2008	2007	2006
Operating income	$ 16.7	$ 123.3	$ 19.5
Operating margin	2.8%	24.3%	5.0%

Operating income for the year ended December 31, 2008 decreased $106.6 million from the year ended December 31, 2007. This decrease was primarily due to a $62.7 million decrease in asbestos-related income, IPO-related costs of $57.0 million, $4.2 million of professional and other costs associated with becoming a public company, $4.1 million related to a reserve increase for a legacy legal matter, the absence of $2.2 million of income recognized in the prior year period related to a product liability matter, $0.7 million of unrealized losses on raw material futures and foreign currency contracts for which we did not elect hedge accounting, partially offset by $23.4 million of increased operational performance in our existing business units primarily caused by increased sales volume and a $3.3 million favorable impact from foreign exchange rates.

Operating income for the year ended December 31, 2007 increased $103.8 million to $123.3 million from $19.5 million for the year ended December 31, 2006. This increase was primarily due to an $84.1 million decrease in legacy asbestos expenses and a $38.8 million increase in gross profit offset in part by an $18.4 million increase in selling, general and administrative expenses. Operating margin increased to 24.3% for the year ended December 31, 2007 from 5.0% for the year ended December 31, 2006.

Interest Expense

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

Interest expense of $11.8 million for the year ended December 31, 2008 declined $7.4 million from the prior year, primarily due to lower debt levels resulting from the debt repayments of $105.4 million with a portion of the IPO proceeds on May 13, 2008. A decrease in the weighted-average interest rate on our variable rate borrowings from 7.4% in 2007 to 6.3% in 2008 contributed approximately $1.5 million to the reduction in interest expense.

Interest expense of $19.2 million for the year ended December 31, 2007 was approximately $5.0 million higher than the year ended December 31, 2006. Approximately $3.3 million of the increase was due to higher debt levels in 2007 due to borrowings incurred to fund the acquisition of LSC. An increase in the weighted average interest rate on our variable rate borrowings from 6.8% in 2006 to 7.4% in 2007 contributed approximately $1.2 million to the increase in interest expense. The remaining increase in interest expense was primarily due to a decrease in the fair value of the interest rate collar.

Provision for Income Taxes

Our effective tax rate can be impacted by changes in the mix of earnings in the countries with differing statutory rates, changes in the valuation of deferred tax assets and liabilities and changes in tax law. Valuation allowances for deferred tax assets are evaluated in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* (SFAS No. 109), and are increased if it is more likely than not that a portion of the deferred tax benefits will not be realized. Under Accounting Principles Board Opinion No. 23, *Accounting for Income Taxes Special Areas* (APB 23), foreign earnings considered not permanently reinvested in the local jurisdiction must be recognized as a deferred tax expense in the year that it is considered to be not permanently reinvested. The tax effect of significant unusual items or changes in tax law is reflected in the period in which they occur.

The effective income tax rate for the year ended December 31, 2008, was 111.7% as compared to an effective tax rate of 37.6% for the year ended December 31, 2007. Our effective tax rate for the year ended December 31, 2008 was higher than the U.S. federal statutory rate primarily due to an $11.8 million payment to reimburse certain selling shareholders for underwriters discounts that are not deductible for tax purposes and a $3.4 million increase in valuation allowance, offset in part by an expected lower overall rate on normal operations due to reductions in German corporate tax rates in 2008, other international tax rates that are lower than the U.S. tax rate, changes in overall profitability and state tax benefits.

The effective income tax rate for the year ended December 31, 2007, was 37.6% as compared to an effective tax rate of 72.2% for the year ended December 31, 2006. Our effective tax rate for the year ended December 31, 2007, was higher than the U.S. federal statutory rate of 35%

primarily due to state taxes and the inclusion of foreign earnings included in U.S. taxable income offset by

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deferred tax benefits recognized by our German subsidiary as a result of the German tax rate reduction from approximately 38% to 29.0% effective as of January 1, 2008. The effective tax rate of 72.2% for the year ending December 31, 2006, was higher than the U.S. federal statutory rate of 35% primarily due to the recognition of deferred tax expense attributed to foreign earnings of the Company s Swedish subsidiary that was considered not to be permanently reinvested pursuant to APB 23.

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 December 31, 2008, we had approximately $130 million available on our revolver loan and we had $28.8 million of cash.

Borrowings

On May 13, 2008, coinciding with the closing of the IPO, we terminated our existing credit facility. There were no material early termination penalties incurred as a result of the termination. Deferred loan costs of $4.6 million were written off in connection with this termination. On the same day, we entered into a new credit agreement (the Credit Agreement). The Credit Agreement, led by Banc of America Securities LLC and administered by Bank of America, is a senior secured structure with a $150.0 million revolver and a Term A Note of $100.0 million.

The Term A Note bears interest at LIBOR plus a margin ranging from 2.25% to 2.75% determined by the total leverage ratio calculated at quarter end. At December 31, 2008, the interest rate was 2.71% inclusive of a 2.25% margin. The Term A Note, as entered into on May 13, 2008, has $1.25 million due on a quarterly basis on the last day of each March, June, September and December beginning June 30, 2008 and ending March 31, 2010, $2.5 million due on a quarterly basis on the last day of each March, June, September and December beginning June 30, 2010 and ending March 31, 2013, and one installment of $60.0 million payable on May 13, 2013. On December 31, 2008, there was $96.3 million outstanding on the Term A Note.

The $150.0 million revolver contains a $50.0 million letter of credit sub-facility, a $25.0 million swing line loan sub-facility and a 100.0 million sub-facility. At December 31, 2008, the annual commitment fee on the revolver was 0.4% and there was $16.7 million outstanding on the letter of credit sub-facility, leaving approximately $130 million available under our revolver loan.

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 the Credit Agreement. Certain European assets are pledged against borrowings directly made to our European subsidiary. The 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, the 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 1.50 to 1.0, measured at the end of each quarter. If the Company does not comply with the various covenants under the 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. The Company believes it is in compliance with all such covenants as of December 31, 2008 and expects to be in compliance for the next 12 months.

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As of December 31, 2008, we had approximately $130 million available on our $150 million revolving credit line. Present drawings under the credit line are letters of credit securing various obligations related to our business. The revolving credit line is provided by a consortium of financial institutions with varying commitment levels as show below (in millions):

	Amount
Bank of America [1]	$ 32.4
RBS Citizens	14.4
TD BankNorth	14.4
Wells Fargo [2]	14.4
SunTrust Bank	14.4
Landesbank Baden-Wuerttemberg	10.5
DnB Nor Bank	10.5
HSBC	10.5
KeyBank	10.5
Carolina First Corp	6.0
UBS	6.0
Lehman Brothers[3]	6.0
Total	$ 150.0

(1) Includes $14.4 million that was originally with Merrill Lynch

(2) Original commitment was from Wachovia Bank

(3) The bankruptcy of Lehman Brothers resulted in their default under the terms of the revolver and it is doubtful that we would be able to draw on Lehman Brothers commitment of $6.0 million.

Comparative Cash Flows

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

	Year ended December 31,		
(Amounts in millions)	**2008**	**2007**	**2006**
Net cash (used in) provided by operating activities	**$ (33.0)**	**$ 74.5**	**$ (17.4)**
Purchases of fixed assets	(18.6)	(13.7)	(10.2)
Net cash paid for acquisitions	(0.4)	(33.0)	
Other sources, net		0.2	0.1
Net cash used in investing activities	**$ (19.1)**	**$ (46.5)**	**$ (10.1)**
Proceeds and repayments of borrowings, net	(110.3)	14.7	26.9
Net proceeds from IPO	193.0		
Dividends paid to preferred shareholders	(38.5)		
Repurchases of common stock	(5.7)		
Payments made for loan costs	(3.3)	(1.4)	
Payment of deferred stock issuance costs		(1.2)	
Other uses, net	(0.4)	(0.4)	(0.3)

Net cash provided by financing activities	**$ 34.8**	**$ 11.7**	**$ 26.6**

Cash flows from operating activities can fluctuate significantly from period to period as working capital needs, the timing of payments for items such as asbestos-related cash flows, pension funding decisions and other items impact reported cash flows.

Net cash (used in) provided by operating activities was $(33.0) million, $74.5 million and $(17.4) million for the years ended December 31, 2008, 2007 and 2006, respectively. The two most significant items causing the variability in these reported amounts were asbestos-related cash flows (including the disposition of claims, defense costs, insurer reimbursements and settlements and legal expenses related to litigation against our insurers) and IPO-related costs in 2008. For the years ended December 31, 2008, 2007 and 2006, net cash paid (received) for asbestos liabilities, net of insurance settlements received, was $21.8 million, $(22.5) million and

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$32.7 million, respectively. For the year ended December 31, 2008, cash paid for IPO-related costs were $42.4 million. Additionally, in the year ended December 31, 2008, cash paid for legacy legal settlements were $11.7 million. Excluding the effect of asbestos-related cash flows, IPO-related costs, and legacy legal settlements, net cash provided by operating activities would have been $42.9 million, $52.0 million and $15.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Other changes in operating cash flow items are discussed below.

Funding requirements of our defined benefit plans, including both pensions and other post-employment benefits, can vary significantly among periods due to changes in the fair value of plan assets and actuarial assumptions. For the years ended December 31, 2008, 2007 and 2006, cash contributions for defined benefit plans were $4.1 million, $6.7 million, and $11.0 million, respectively.

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

Working capital, excluding the effects of acquisitions and foreign currency translation, increased $30.5 million from December 31, 2007 to December 31, 2008 and $1.0 million from December 31, 2006 to December 31, 2007. These increases were primarily due to increases in inventories and trade receivables due to growth in sales volume.

Investing activities consist primarily of purchases of fixed assets and cash paid for acquisitions.

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

In January 2007, we acquired LSC for a purchase price of $29.7 million, net of cash acquired.

In November 2007, we acquired Fairmount for a purchase price of $3.3 million, net of cash acquired. Purchase price adjustments of $0.4 million in 2008 increased the purchase price to $3.7 million, net of cash acquired.

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

Our IPO proceeds were $193.0 million after deducting estimated accounting, legal and other expenses of $5.9 million. We used these proceeds to: (i) repay approximately $105.4 million of indebtedness outstanding under our credit facility, (ii) pay dividends to existing preferred stockholders of record immediately prior to the consummation of the IPO in the amount of $38.5 million, (iii) pay $11.8 million to the selling stockholders in the IPO as reimbursement for the underwriting discount incurred on the shares sold by them, and (iv) pay special bonuses of approximately $27.8 million to certain of our executives under previously adopted executive compensation plans. The remainder of the net proceeds was applied to working capital.

We paid approximately $3.3 million in deferred loan costs related to our new credit facility entered into May 13, 2008.

In the fourth quarter of 2008, we purchased 795,000 shares of our common stock for approximately $5.7 million. At December 31, 2008, the remaining stock repurchase authorization provided by our Board of Directors is $10.0 million which is the annual limit of common stock repurchases that we can make pursuant to our Credit Agreement.

On January 3, 2007, we amended the credit facility to increase borrowings under the Term B loan by $55.0 million. Approximately $28.5 million of the proceeds were subsequently used to fund the acquisition of LSC, $24.5 million of the proceeds were used to pay down our revolver debt, and the remaining proceeds were used for other general corporate purposes.

In November 2007, $10.0 million cash received from settlements with our asbestos insurers was used to pay down the revolver. In addition, the Term C was paid down by 7.0 million.

During 2007, we paid deferred stock issuance costs of $1.2 million for costs incurred related to our IPO in May 2008.

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Contractual Obligations

The following table is a summary of contractual obligations as of December 31, 2008 (in millions):

	Total	Less than One Year	1-3 Years	3-5 Years	More Than 5 Years
Payments Due by Period					
Term Loan A	$ 96.3	$ 5.0	$ 18.8	$ 72.5	$
Interest payments on long-term debt [(1)]	16.6	5.4	8.3	2.9	
Capital leases	0.9	0.4	0.5		
Operating leases	9.1	3.6	4.1	1.4	
Total	$ 122.9	$ 14.4	$ 31.7	$ 76.8	$

(1) Variable interest payments are estimated using a static rate of 4.2%.

We have cash funding requirements associated with our pension and other post-retirement benefit plans, which are estimated to be approximately $4.6 million for the year ending December 31, 2009. We have no binding purchase obligations as of December 31, 2008. Other long-term liabilities, such as those for asbestos and other legal claims, employee benefit plan obligations, and deferred income taxes, are excluded from the above table since they are not contractually fixed as to timing and amount.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that provide liquidity, capital resources, market or credit risk support that expose us to any liability that is not reflected in our consolidated financial statements other than outstanding letters of credit of $16.7 million at December 31, 2008 and future operating lease payments of $9.1 million.

On November 29, 2007, we acquired Fairmount Automation, Inc. (Fairmount), an original equipment manufacturer of mission critical programmable automation controllers in fluid handling applications primarily for the U.S. Navy, for $4.5 million plus contingent payments based on achievement of future revenue and earnings targets over the period ending December 31, 2010. Remaining contingent payments, if any, of up to $1.7 million could result if targets are achieved.

The Company and its subsidiaries have in the past divested certain of its businesses and assets. In connection with these divestitures, certain representations, warranties and indemnities were made to purchasers to cover various risks or unknown liabilities. We cannot estimate the potential liability, if any, that may result from such representations, warranties and indemnities because they relate to unknown and unexpected contingencies; however, the Company does not believe that any such liabilities will have a material adverse effect on our financial condition, results of operations or liquidity.

Critical Accounting Policies

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.

We believe the following accounting policies are the most critical in that they are important to the financial statements and they require the most difficult, subjective or complex judgments in the preparation of the financial statements. For a detailed discussion on the application of these and other accounting policies, see Note 2 to the Consolidated Financial Statements.

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.

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

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

	Year ended December 31,		
	2008	2007	2006
Claims unresolved at the beginning of the period	37,554	50,020	59,217
Claims filed [(2)]	4,729	6,861	5,992
Claims resolved [(3)]	(6,926)	(19,327)	(15,189)
Claims unresolved at the end of the period	35,357	37,554	50,020
Average cost of resolved claims [(4)]	$ 5,378	$ 5,232	$ 6,194

(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.

(4) Average cost of settlement to resolve claims in whole dollars. These amounts exclude claims in Mississippi for which the majority of claims have historically been without merit and have been resolved for no payment. These amounts exclude any potential insurance recoveries.

We have 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. We believe that we 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 our best estimate. While it is reasonably possible that the subsidiaries will incur costs after this period, we do 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 associated with asbestos-related liabilities as well as costs incurred related to litigation against the subsidiaries insurers are expensed as incurred.

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

For one of the subsidiaries, although presently no cost sharing or allocation agreement is in place with our excess insurers, we believe that based upon application of an insurance allocation methodology, which is used in certain states, including Florida and Massachusetts, and in accordance with prevailing law, that recovery is probable from such insurers for approximately 67% of the liability and defense costs after the exhaustion of primary and umbrella layers of insurance. In 2006, the primary insurer asserted that certain primary insurance policies contain deductibles and retrospective premium provisions. As a result, we had a reserve of $7.5 million recorded as a reduction of our asbestos insurance asset at December 31, 2007, for the probable and reasonably estimable liability we expected to pay related to these policy provisions. We reimbursed the primary insurer for $7.6 million in deductibles and retrospective premiums in the fourth quarter of 2008 and have no further liability to the insurer under these provisions of the primary policies.

Until recently, this subsidiary has had all of its liability and defense costs covered in full by its primary and umbrella insurance carrier. This carrier has informed the subsidiary that the primary insurance policies are now exhausted. In May 2008, the carrier provided notice that one of fourteen umbrella policies had exhausted and in October 2008, notified the subsidiary that two additional umbrella policies had been exhausted. As a result, the carrier informed the subsidiary that in the future it will pay 78.6% (or 11/14ths) of liability costs but will continue to pay 100% of defense costs, subject to its prior reservation of rights to deny coverage for any claims that are not covered under the terms of the relevant policies. The carrier also informed the subsidiary that it would withhold payment of an additional one-fourteenth share of the subsidiary s liability costs for each umbrella policy that exhausts in the future. In addition to the primary and umbrella insurance coverage, there is a substantial amount of excess insurance coverage available to it from solvent carriers.

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In November of 2008, the subsidiary entered into a settlement agreement with the primary and umbrella carrier governing all aspects of the carrier s past and future handling of the asbestos related bodily injury claims against the subsidiary. As a result of this agreement, during the third quarter of 2008, we increased our insurance asset by $7.0 million attributable to resolution of a dispute concerning certain pre-1966 insurance policies and recorded a corresponding gain. The additional insurance will be allocated by the carrier to cover any gaps in coverage up to $7.0 million resulting from exhaustion of umbrella policies and/or from the failure of an excess carrier to pay amounts incurred in connection with asbestos claims. The primary and umbrella insurer is once again paying 100% of all liability and defense 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 defendants insurance companies contested coverage, they disputed the timing, reasonableness and allocation of payments. For this other subsidiary it was determined by court ruling in the fourth quarter of 2007, that the allocation methodology mandated by the New Jersey courts will apply. Based upon this ruling and upon a series of other favorable rulings regarding interpretation of certain policy provisions related to deductibles, the number of occurrences and the resulting calculation, we increased our expected recovery percentage to 87.5% from 75% of all liability costs recorded after September 28, 2007 and revalued its insurance asset at that date. Based upon further analysis of the court mandated allocation methodology, the subsidiary increased its expected recovery percent of future liability cost from 87.5% to 88.5% at December 31, 2008.

As of December 31, 2007, based upon (i) application of the New Jersey allocation model, (ii) court records indicating the court was likely to order insurers to reimburse the subsidiary for past costs, and (iii) the receipt of $58.0 million in cash from certain insurers during the fourth quarter of 2007, we recorded a receivable for all past liability and defense cost, for which it believes recovery is probable. The Special Allocation Master appointed by the court in this subsidiary s insurance coverage dispute has issued several recommendations to the trial court. These recommendations confirm that the subsidiary is entitled to its entire insurance asset and the losses are to be allocated to the various liability insurers in accordance with New Jersey law.

In 2007 and 2008, certain insurance carriers agreed to settle with this subsidiary by reimbursing the subsidiary for amounts it paid for liability and defense costs as well as entering into formal agreements detailing the payments of future liability and defense costs in an agreed to allocation. In addition, a number of non-settling insurance carriers have paid significant amounts for liability and defense costs paid by the subsidiary in the past and continue to pay a share of costs as they are incurred. Presently, certain insurers are paying approximately 22.7% of costs for current asbestos-related liability and defense costs as they are incurred.

The following table sets forth the cash received from insurance carriers for the years ended December 31, 2008, 2007 and 2006. Cash characterized as past cost reduces our outstanding asbestos insurance receivables. Cash characterized as future cost within the 15-year liability range relates to insurance policies that are triggered within our 15-year estimate of asbestos-related liability and were recorded as a reduction of the asbestos insurance asset. Cash characterized as future cost outside the 15-year liability range relates to insurance policies which are not triggered within our 15-year estimate of asbestos-related liability and were recorded as income in asbestos liability and defense (income) costs.

	Year ended December 31,		
(Amounts in thousands)	**2008**	**2007**	**2006**
Past cost	$ 34,301	$ 50,680	$
Future cost:			
Within 15-year liability range		6,341	
Outside 15-year liability range	900	8,430	
Total insurance proceeds received	$ 35,201	$ 65,451	$

We have established reserves of $357.3 million and $376.2 million as of December 31, 2008 and December 31, 2007, respectively, for the probable and reasonably estimable asbestos-related liability cost we believe the subsidiaries will pay through the next 15 years. We have also established recoverables of $304.0 million and $305.2 million as of December 31, 2008 and

December 31, 2007, 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 $53.3 million and $71.0 million as of December 31, 2008 and December 31, 2007, respectively. In addition we have recorded a receivable for liability and defense cost previously paid in the amount of $36.4 million and $44.7 million as of December 31, 2008 and December 31, 2007, respectively, for which insurance recovery is deemed probable. We have 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 in the accompanying consolidated balance sheets.

The (income) expense related to these liabilities and legal defense was $(4.8) million, net of estimated insurance recoveries, for the year ended December 31, 2008 compared to $(63.9) million and $21.8 million for the years ended December 31, 2007 and December 31, 2006, respectively. Legal costs related to the subsidiaries action against their asbestos insurers were $17.2 million for the year ended December 31, 2008 compared to $13.6 million and $12.0 million for the years ended December 31, 2007 and December 31, 2006, respectively.

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

Retirement Benefits

Pension obligations and other post-retirement benefits are actuarially determined and are affected by several assumptions, including the discount rate, assumed annual rates of return on plan assets, and per capita cost of covered health care benefits. Changes in discount rate and differences from actual results for each assumption will affect the amounts of pension expense and other post-retirement expense recognized in future periods. These assumptions may also have an effect on the amount and timing of future cash contributions.

Impairment of Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the costs in excess of the fair value of net assets acquired associated with our acquisitions.

We evaluate the recoverability of goodwill and indefinite-lived intangible assets annually on December 31 or more frequently if events or changes in circumstances, such as a decline in sales, earnings, or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Estimated fair values for each reporting unit are established based upon the average of actual and projected net income before income taxes, interest, depreciation and amortization (EBITDA) for the next two years multiplied by related industry valuation multiples for recent transactions between unrelated parties. The determination of EBITDA is based on our actual results, budgets, and strategic plans. Related industry valuation multiples of EBITDA are obtained by us from investment bankers. This data is gathered from recent change of control transactions involving entities with comparable operations and economic characteristics within our industry. This valuation methodology is consistent with the objective of measuring fair value, and is commonly used by the investment banking community as one estimate of fair value. If valuation based upon EBITDA multiples demonstrates any possibility of impairment, we utilize other valuation techniques, such as discounted cash flows, or multiples of earnings or revenues, to further define estimated fair value. If the carrying amount of a reporting unit exceeds its implied fair value, then the second step of the goodwill impairment test would be performed to measure the amount of impairment loss, if any. The analysis indicated no impairment to be present for the years ended December 31, 2008, 2007 and 2006.

However, actual results could differ from our estimates and projections, which would affect the assessment of impairment. As of December 31, 2008, we have goodwill of $166 million that is subject to at least annual review of impairment.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion of the deferred tax asset will not be realized. In evaluating the need for a valuation allowance, we take into account various factors, including the expected level of future taxable income and available tax planning strategies. If actual results differ from the assumptions made in the evaluation of our valuation allowance, we record a change in valuation allowance through income tax expense in the period such determination is made.

During the year ending December 31, 2008, the valuation allowance increased from $24.4 million to $52.2 million. Approximately $24.4 million of this increase was recognized in other comprehensive income and the remaining $3.4 million was recognized in income tax expense. One of the primary factors in the valuation allowance increase was the recording of a significant amount of actuarial losses and prior service cost for U.S. pension and other post-retirement benefit plans to other comprehensive income in the year ended December 31, 2008, among other items, that created additional deferred tax assets in 2008. Consideration was given to U.S. tax planning strategies and future U.S. taxable income as to how much of the total U.S. deferred tax asset could be realized on a more likely than not basis. If economic conditions adversely affect our ability to generate future U.S. taxable income, additional valuation allowances may be needed.

The determination of our provision for income tax requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We establish reserves when, despite the belief that the tax return positions are fully supportable, we believe that certain positions may be successfully challenged. When facts and circumstances change, the reserves are adjusted through the provision for income taxes. We adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) on January 1, 2007. FIN 48 prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

Revenue Recognition

We recognize revenues and costs from product sales when all of the following criteria are met: persuasive evidence of an arrangement exists, the price is fixed or determinable, product delivery has occurred or services have been rendered, there are no further obligations to customers, and collectibility is probable. Product delivery occurs when title and risk of loss transfer to the customer. Our shipping terms vary based on the contract. If any significant obligations to the customer with respect to such sale remain to be fulfilled following shipment, typically involving obligations relating to installation and acceptance by the buyer, revenue recognition is deferred until such obligations have been fulfilled. Any customer allowances and discounts are recorded as a reduction in reported revenues at the time of sale because these allowances reflect a reduction in the purchase price for the products purchased. These allowances and discounts are estimated based on historical experience and known trends. Revenue related to service agreements is recognized as revenue over the term of the agreement.

For long-term contracts, revenue is generally recognized based on the percentage-of-completion method calculated on the units of delivery basis or the cost-to-cost basis. The percentage of completion method requires estimates of total expected contract revenue and costs. We follow this method when we can make reasonably dependable estimates of the revenue and cost applicable to various stages of the contract. Revisions in profit estimates are reflected in the period in which the facts that gave rise to the revision become known and have historically been insignificant. Percentage of completion revenue was approximately 0.9%, 2.9%, and 3.8% of consolidated revenues for the years ended December 31, 2008, 2007 and 2006, respectively. Service revenues are recognized as services are performed.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. These allowances are based on recent trends of certain customers estimated to be a greater credit risk as well as general trends of the entire pool of customers. The allowance for doubtful accounts was $2.5 million and $1.8 million as of December 31, 2008 and 2007, respectively. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The foregoing criteria are used for all classes of customers including original equipment manufacturers, distributors, government contractors and other end users.

Stock-Based Compensation

Pursuant to our 2008 omnibus incentive plan, our board of directors may make awards in the form of shares of restricted stock, stock options and restricted stock units (RSUs) and other stock-based awards. We account for the awards as stock-based compensation under SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), which requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with limited exceptions. That cost is recognized over the period during which an employee is required to provide service in exchange for the award the requisite service period or vesting period. No compensation cost is recognized for equity instruments

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for which employees do not render the requisite service. We have equity incentive plans to encourage employees and non-employee directors to remain with us and to more closely align their interests with those of our shareholders.

For purposes of calculating stock-based compensation, the fair value of restricted stock or restricted stock units granted is equal to the market value of a share of common stock on the date of the grant. For grants that were awarded on May 7, 2008 in conjunction with our initial public offering, we used the initial public offering price as the fair value of the restricted stock and restricted stock units granted. For stock options, we estimate the fair value on the date of grant using the Black-Scholes option-pricing model. The determination of fair value using the Black-Scholes model requires a number of complex and subjective variables. One key input into the model is the fair value of our common stock on the date of grant, the initial public offering price in the case of stock options issued on May 7, 2008. Other key variables in the Black-Scholes option-pricing model include the expected volatility of our common stock price, the expected term of the award and the risk-free interest rate. In addition, under SFAS No. 123R, we are required to estimate forfeitures of unvested awards when recognizing compensation expense. Significant assumptions used to calculate stock based compensation during the year ended December 31, 2008 were a stock price volatility of 32.35%, an expected option life of 4.5 years, a risk-free interest rate based on the 5-year treasury note yield on the date of grant ranging from 2.5 % to 3.1% and a 0% expected dividend yield.

Stock-based compensation expense recognized for the year ended December 31, 2008 was $11.3 million. No stock-based compensation expense was recognized for the years ended December 31, 2007 and 2006. We cannot predict with certainty the impact of stock-compensation expense to be recognized in accordance with SFAS No. 123R in the future because the actual amount of stock-based compensation expense we record in any fiscal period will be dependent on a number of factors, including the number of shares subject to the stock awards issued, the fair value of our common stock at the time of issuance and the expected volatility of our stock price over time. However, based on awards we currently expect to make in 2009, stock-based compensation for the year ended December 31, 2009 is projected to be approximately $2.8 million.

Recent Pronouncements

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

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ITEM 7A. 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 year ended December 31, 2008 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 December 31, 2008 are variable rate facilities based on LIBOR or EURIBOR. A hypothetical increase in the interest rate of 1.00% on our variable rate debt during 2008 would have increased our interest cost by approximately $0.9 million. In order to mitigate this risk, we periodically enter into interest rate swap or collar agreements.

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 $5.0 million at December 31, 2008. 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 2008, approximately 69% of our sales were derived from operations outside the U.S., with approximately 66% 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, 2008 income before income taxes would have increased by $6.0 million.

Commodity Price Risk

We are exposed to changes in the prices of raw materials used in our production processes. Commodity futures contracts are periodically used to manage such exposure. As of December 31, 2008, we had copper and nickel futures contracts with notional values of $3.6 million that were in an unrealized loss position of $2.1 million. We have not elected hedge accounting for these futures contracts, and therefore changes in their fair value are included in net income.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Colfax Corporation

We have audited the accompanying consolidated balance sheets of Colfax Corporation as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Colfax Corporation at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As explained in Note 6 to the consolidated financial statements, on January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*.

/s/ Ernst & Young LLP

Richmond, Virginia
March 2, 2009

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COLFAX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

Dollars in thousands, except per share amounts

	Year ended December 31,		
	2008	**2007**	**2006**
Net sales	$ 604,854	$ 506,305	$ 393,604
Cost of sales	387,667	330,714	256,806
Gross profit	217,187	175,591	136,798
Initial public offering related costs	57,017		
Selling, general and administrative expenses	125,234	98,500	80,103
Research and development expenses	5,856	4,162	3,336
Asbestos liability and defense (income) costs	(4,771)	(63,978)	21,783
Asbestos coverage litigation expenses	17,162	13,632	12,033
Operating income	16,689	123,275	19,543
Interest expense	11,822	19,246	14,186
Income before income taxes and discontinued operations	4,867	104,029	5,357
Provision for income taxes	5,438	39,147	3,866
(Loss) income from continuing operations	(571)	64,882	1,491
Discontinued operations:			
Loss on disposal, net of income taxes			(1,397)
Net (loss) income	(571)	64,882	94
Dividends on preferred stock	(3,492)	(25,816)	
Net (loss) income available to common shareholders	$ (4,063)	$ 39,066	$ 94
Earnings (loss) per share basic and diluted:			
Continuing operations	$ (0.11)	$ 1.79	$ 0.07
Discontinued			